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U.S.S.R. Took "Costly Detour" To IMF Association, Says Bernstein

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"What a costly detour the Soviet Union has traveled since Bretton Woods to seek now the membership in the International Monetary Fund that it rejected in 1945," concluded Edward M. Bernstein at a symposium entitled "The U.S.S.R.'s Entry into the Global Economy." Bernstein, a Guest Scholar at The Brookings Institution and a participant in the 1944 Bretton Woods Conference, was addressing an October 28 symposium in Washington, D.C., which was sponsored by the Bretton Woods Committee, a private group that works to increase public understanding of the IMF and the World Bank.

Bernstein's eyewitness account of the negotiations to establish the IMF and the World Bank, and the role the U.S.S.R. played in those negotiations, provided the historic background to discussions relating to the more recent conclusion of an agreement providing for a Special Association between the Soviet Union and the IMF. Bernstein pointed out that, although the U.S.S.R. participated in the 1944 conference, a number of problems that emerged during the conference were never resolved, and, ultimately, the Soviet Union decided not to ratify the Bretton Woods Agreements.

Edward M. Bernstein: the Soviets objected to paying 25 percent of their quota in gold.

One of the problems, Bernstein remarked, was that the Soviet delegation demanded a quota of more than a billion dollars, compared with the country's proposed quota of $800 million. Another problem was that the Soviet delegation objected to paying 25 percent of its quota in gold, arguing that countries that had suffered destruction during World War II should be exempt from the gold payment or, at a minimum, have *(Please turn to page 343)*

IMF ACTIVITIES

Managing Director's Address . . .

India Implements Courageous And Far-Reaching Economic Program

Following are excerpts from a speech by IMF Managing Director Michel Camdessus on October 24, 1991 in New Delhi, India:

It is a pleasure to be with you today, and to visit the India International Center, which for over thirty years has contributed much to greater understanding among the different communities of the world.

It is clear that India is facing today an economic crisis that, in its severity, is unprecedented in the postindependence era. Its main features are well known to you—an extremely difficult balance of payments position and, as one of its main causes, a large deficit in the Government's budget. Moreover, output growth has been below the considerable potential of the economy, on account of deep-seated structural weaknesses, many of which arise from overregulation of economic activity and a development strategy that was insufficiently outward-oriented. These problems were evident in the generally low productivity of investment.

Let me also say immediately that the response of the Indian authorities to this crisis in recent months has been courageous and far-reaching. We in the IMF have indeed been very happy to be able to support these efforts.

In these circumstances, what is the IMF doing to help India? What can we offer?

Not, I'm afraid, a ready-made, standard blueprint for economic reform. None of us should pretend to have that, and, as I said earlier, that is not the way the IMF approaches a country's problems. However, the IMF can extend *advice* based on all that we have learned from the varied experience of many countries—including India, of course!—over more than forty years.

I can summarize these lessons very briefly, in these words. Countries that have achieved sustained high rates of growth without protracted balance of payments difficulties have set certain policy priorities for themselves, preferably within a medium-term framework. They have pursued prudent financial policies, providing a stable macroeconomic environment with low inflation. They have adopted outward-oriented growth strategies, with realistic exchange rates. They have maintained high levels of investment, financed mainly by high levels of domestic savings. They have tried to ensure that investment is efficient and productive, in part by avoiding excessive regulation of economic activity. They have given importance to spreading education as widely as possible. The best-governed of them have been assiduous in trying to ensure that all sectors of society, including the most disadvantaged, have a genuine stake in economic progress. They have also been alert to changes in domestic and external conditions, whether favorable or unfavorable, responding promptly and pragmatically to exploit the former and to overcome the effects of the latter. You will see that all of this does not amount to government withdrawing from the economy. Rather, it requires a careful definition of the role of the government, concentrating on what only government is able to do, and refraining from interfering or competing in the areas of distribution or production where entrepreneurs do the job better and can flourish. In this way, government supports rather than suppresses entrepreneurial initiative.

I see many of these elements being incorporated in the reorientation of economic policies that is now taking place in India. Of course, there is a long way still to go—but there has been an impressive beginning. That is why I myself have commended the Government's program to the international community, both as represented in the forum of the IMF and outside, for the most generous support.

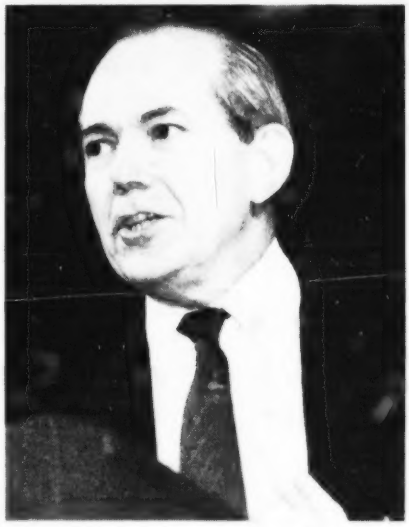
India is reorienting its policies in a direction that addresses the difficult challenges it faces. These policies will have to be pursued vigorously and with perseverance. . . . With this approach, and with the financial support that the international community is providing, most of the essential conditions for success are being met. However, I am aware that the task for India will be even more difficult unless the global economic environment is favorable. That is why we in the IMF consider it a very important part of our mission to foster a global economic environment that is healthier and that is supportive of all countries as they pursue their own objectives.

Now, how does the IMF see the global environment today?

In the short run, first, we see a moderate recovery in global economic activity. The short and shallow recession in the industrial countries should be succeeded by an upturn in 1992 to the average rate of growth of the last decade, about 2¾ percent. And, second, we see emerging a potential problem of global savings and investment. This is due to two factors. On the one hand, the behavior of saving in the main industrial countries has been sluggish for some years, and this is expected to continue. And, on the other hand, we face a conjunction of increased demands for investment in many countries. . . . In all, therefore, the world faces a potential imbalance between the supply of savings and the anticipated demand for capital everywhere.

In the absence of strong measures, this ex ante imbalance will be corrected ex post by the classic operation of markets—namely, by an increase in real interest rates. There is no need to spell out how that would work to the severe disadvantage of India and all other countries, particularly in the developing world.

There is, fortunately, a solution, and it has been my duty to explain it extensively to the industrial and developing countries equally. A practical solution is for all countries to make a stronger effort to improve their own saving and investment performance. On the saving side, there is scope to promote higher saving by reducing budget deficits. Clearly, this is as urgent in those developing countries such as India, where the deficit is large in relation to GDP, as it is in several of the industrial countries that bulk large in the global financial picture. In every country, there is scope to re-examine public spending, in order to eliminate waste, reduce unproductive spending of all kinds, and ensure that spending is more closely aligned with the main priorities of national policy. In this connection, I am continually emphasizing the desirability of early action to reduce substantially the agricultural subsidies of the industrial countries, and hopefully to eliminate them entirely before long . . . . And, on the investment side, we are stressing the desirability of all kinds of action that will ensure that scarce capital is channeled to those activities that are most productive or otherwise have highest priority. This includes measures to improve the functioning of markets.



Michel Camdessus: countries must improve their saving and investment performance.

One particular element of the global economic picture deserves a special word. We are living in a very different world as a result of the recent political changes in the U.S.S.R. and Eastern Europe. It is a new world in which the reduction in East-West tensions is creating the possibility, for the first time really in half a century, for substantial reductions in military spending by the major powers, and for a rechanneling of human and financial resources to better uses. It is not my aim to comment on what is or may be the optimal level of defense spending for any country; that depends on many factors, the first of them being the regional context, and involves a complex value judgment for those responsible for each country's security. Rather, I wish only to stress that the large military cutbacks that are now envisaged by certain countries (notably, the United States, the U.S.S.R., and the countries of Eastern and Central Europe, but, hopefully, others also) will have important—if not always immediate—economic consequences for those countries and for the rest of the world. And surely every country should also reassess carefully its military spending, to see to what extent it can transfer part of these human and financial resources to better uses—such as productive investment that will contribute to its growth strategy, or high-priority social programs. It is gratifying that India has already taken meaningful steps to reduce expenditures on defense, which have fallen as a share of GDP from 3½ percent in the late 1980s to below 3 percent in the current budget. In a few days, I shall be visiting Pakistan also. What a fine example it will be to the rest of the developing world, if these two great nations can each transfer substantial human and financial resources to activities that will more directly contribute to growth and to the reduction of poverty. What a prospect that could create for a better life for everyone on the subcontinent! There is no doubt that at the global level such reassessment of military expenditure could contribute significantly to solving the problem of global savings.

In essence, the problem of shortage of savings is probably more one of misuse of resources than of scarcity. I am confident that the problem of global savings *can be* solved, *provided* all countries make the necessary effort. There is no reason why the pressing needs of the developing countries of Asia, Africa, the Middle East, and Latin America should be left unsatisfied because of the new demands stemming from Eastern Europe and the U.S.S.R.

READEX FICHE

Managing Director's Address . . .

Pakistan Attacks Structural Weaknesses To Lay Foundation for Long-Term Growth

Structural adjustment and macroeconomic policy issues with special reference to Pakistan were the main focus of a seminar held in Lahore, Pakistan, on October 26–28. Organized jointly by the IMF and the Pakistan Administrative Staff College, the seminar brought together some seventy-five academics, businessmen, journalists, and government officials from Bangladesh, India, Iran, Pakistan, Sri Lanka, and Turkey. IMF Managing Director Michel Camdessus was the keynote speaker at the seminar. Following are excerpts from his address:

The program that the Pakistan authorities have been implementing in recent years, with the support of the IMF, is based on a policy approach that seeks to establish a sound basis for long-term efficiency and growth by dealing with long-standing structural weaknesses while simultaneously coping with the pressing problems of macroeconomic imbalances. The Pakistan authorities are courageously implementing a comprehensive program. They have encountered difficulties, owing to unforeseen developments, but they have shown a commendable willingness to adapt to changing circumstances, and to persevere with the thrust of the reforms.

> ***". . . a commendable willingness to adapt to changing circumstances."***

Through most of the 1980s, Pakistan experienced strong economic growth and a steady rise in per capita income, despite its high rate of population growth. Nevertheless, by 1988 Pakistan faced severe macroeconomic difficulties, superimposed on long-standing structural weaknesses. The domestic savings rate remained low by international standards . . . . Inflation approached double digits, and the external current account deficit widened to over 4 percent of GNP. The major structural weaknesses included a narrow and inelastic base for domestic taxation and a highly restrictive external payments and trade regime. In addition, a weak financial system, a distorted domestic price structure, and a range of restrictions and regulatory bottlenecks inhibited domestic and foreign private sector investment and activity.

The authorities recognized these problems and in 1988 introduced a macroeconomic adjustment and structural reform program supported by a 15-month stand-by arrangement and a three-year SAF [structural adjustment facility] arrangement. The key objectives of this program have been:

- to strengthen the fiscal position through durable structural reforms that will improve tax revenue performance and expenditure control;
- to achieve external viability while liberalizing the external trade regime;
- to enhance the competitiveness of local industry; and
- to ensure a sound and healthy financial system.

Considerable progress has been made in achieving these objectives under the first two annual SAF arrangements. This progress has been achieved despite some policy slippage, and an inhospitable international environment that caused substantial declines in Pakistan's terms of trade in both 1988/89 and 1990/91. I am particularly pleased that agreement has been reached on the final phase of the current program in the context of a third annual SAF arrangement, which will be presented to the IMF's Executive Board in December. This arrangement encompasses ambitious policy action on several fronts. It also balances an emphasis on macroeconomic adjustment with increased emphasis on social programs. The implementation of such a program should keep the economy on the path of sustained growth.

We are confident that the successful implementation of the third-year SAF program will provide a sound basis for even deeper and more comprehensive reforms . . . . Of course, rapid economic changes may imply adverse transitional effects for some groups in society, even though, in the medium term, everyone gains from stronger growth performance. That is why the IMF, in cooperation with the World Bank and other international institutions, attaches great importance to the design of efficient and effective social safety nets for the poorest and most vulnerable groups.

In conclusion, I have described the efforts which the IMF is making to improve the global economic environment within which Pakistan must operate, as well as our contribution to the far-reaching program of structural reforms within a disciplined macroeconomic framework which Pakistan has undertaken. The most important contribution, however, will be that made by the Government and people of Pakistan.

SELECTED TOPICS

IMF Study Explores Features of Successful Exchange Rate System

A successful exchange rate system should have a nominal anchor to promote price stability. It should also facilitate international adjustment, allow for different degrees of exchange rate flexibility (and different exchange rate regimes) across countries, and foster regional integration. These are the main conclusions of a recent study by Jacob A. Frenkel, formerly Economic Counsellor and Director of Research at the IMF and currently Governor of the Central Bank of Israel, and Morris Goldstein and Paul R. Masson of the IMF Research Department.

In the study, entitled *Characteristics of a Successful Exchange Rate System,* the authors also discuss the gains that can be obtained from economic policy coordination and the role the IMF can play in improving the functioning and stability of the international monetary system.

Nominal Anchors

A successful exchange rate system needs some "nominal anchor" for avoiding both global inflation and deflation, according to the authors. One question that arises in this context is how, if the largest industrial countries are to provide such an anchor, should they share this responsibility equally?

The authors maintain that the relative importance of the largest industrial countries in world economic activity and finance has become more equal since the 1950s; the share of the United States in world output—and of the dollar in official reserves—has declined substantially, primarily vis-à-vis Germany and Japan. It is, therefore, "unrealistic to return to a system in which the United States provides the sole nominal anchor."

In the absence of a single dominant country, the authors suggest that "it is natural to consider price stability as the *collective* responsibility of the largest industrial countries," especially the United States, Japan, and Germany (the latter in concert with its partners in the European Monetary System (EMS)). They are well suited for this task because

- their monetary policies have the largest impact on world output and inflation;
- none of the three is likely to subordinate monetary policy to the exchange rate when this would require a policy that conflicts with domestic economic objectives;
- inflation in each of the three countries has, since 1950, been lower than the average for the other large industrial countries; and
- the three countries have fairly independent central banks.

Another question that arises in the context of establishing a nominal anchor is whether this requires something more than a commitment to monetary stability by the major countries. For instance, are there international monetary rules of some kind—such as a peg to gold or a commodity basket—that might keep inflation down? The authors contend that rule-based systems "often turn out to be less automatic in practice than in theory"; rules yield macroeconomic discipline only if the penalties for breaking them are significant. Indeed, "the evidence suggests that explicit international anchoring rules have not consistently yielded better inflation performance."

A successful exchange rate system needs some "nominal anchor."

Facilitating Adjustment

A successful international monetary system should, according to the authors, "embody mechanisms that identify and resist certain large current account positions, but not others." They then point out that current account imbalances "arise from a variety of sources, some of which are benign and require no policy intervention, and some of which are undesirable and do require intervention."

Benign imbalances could include, for example, current account surpluses or deficits that are related to private sector saving patterns or to different demographic developments, while undesirable current account imbalances include those that reflect distortions in the economy. However, whether a given current account imbalance is, or is not, desirable is "often subject to complex interpretation . . . and no simple criteria are available." It is, first

of all, necessary to know the source of the imbalance before a decision can be made on whether it needs correcting and how to correct it.

Exchange Arrangements

A successful exchange rate system must allow for diversity in exchange rate arrangements, the authors contend. They note that since the breakdown of the Bretton Woods system, exchange arrangements have evolved in two distinct directions. On the one side, there has been a move toward exchange rate stability, especially in Europe but also among developing countries that peg their currencies to the dollar, to the French franc, or to a currency basket. On the other side, there has been greater flexibility among the major currencies.

The authors cite three elements as playing a leading role in countries' decisions on the sort of exchange rate arrangement to adopt:

• The structural characteristics of the economy, such as the degree of openness, the exposure to terms of trade shocks, and the degree of nominal wage-price flexibility. In general, fixed exchange rates are likely to be more desirable the more open the economy is (in the sense of being subjected to external nominal shocks) and the more integrated it is with its neighbors. But economies that face large external real shocks (which directly affect the domestic price level)—such as the terms of trade shocks that affect large producers of primary commodities—may be better off with flexible exchange rate arrangements, which help cushion such shocks.

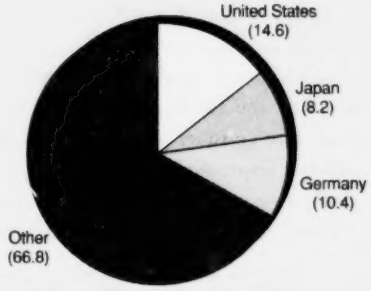
• The need for a credible anti-inflationary monetary policy. Countries without such credibility can easily justify pegging their currencies to those of countries with an established reputation for price stability. In these circumstances, pegging helps discipline both government policies and private sector behavior. A classic illustration of how effectively it can work is provided by the experience of the EMS, in which the deutsche mark has served as the anchor.

• Commitments to regional integration. Greater fixity of exchange rates among groups of countries has typically accompanied regional moves to greater economic integration. A case in point is the European Community, where there has been a two-way interaction between regional integration and exchange rate fixity.

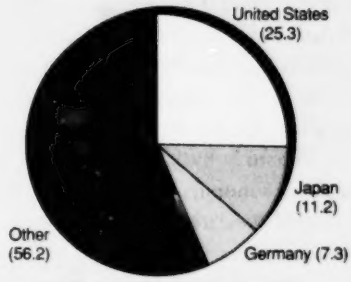
The Three Largest Industrial Countries Have a Good Inflation Record . . .

	1954–89	1954–60	1961–70	1971–80	1981–89
	Average rate of change of consumer prices				
United States	4.4	1.5	2.8	7.8	4.7
Japan	5.0	1.9	5.8	9.1	2.0
Germany	3.1	1.6	2.6	5.1	2.6
Other G-10	6.1	2.6	3.8	10.5	6.7

. . . And a Significant Share of World Trade and Output



Share of World Trade,[1] 1989
(percent)



Share of World Output,[2] 1988
(percent)

[1] Sum of imports plus exports.
[2] Real GDP at market prices.

Data: *Characteristics of a Successful Exchange Rate System* (IMF, Occasional Paper No. 82)

Exchange Market Stability

An important prerequisite for a successful exchange rate system is that the major currencies—which have the greatest impact on the rest of the world—not be subject to serious misalignments and/or volatility.

The authors maintain that the responsibility to calm financial markets in periods of turbulence "may be especially important today," because of increased integration of global financial markets. Greater capital market liberalization increases the potential risks of beggar-my-neighbor practices. The shift away from credit rationing and quantitative restrictions on lending means that monetary policy is transmitted more through exchange rates and interest rates—the "competitive" variables most often cited in beggar-my-neighbor complaints.

Coordination

Coordination is a way of discouraging such practices, contend the authors, and would be likely to involve increased exchange rate commitments.

Although such commitments by the larger countries would be looser than in many target zone schemes, "they would not necessarily be less effective." The key issue is credibility. "A looser commitment wherein authorities react only to large, clear-call misalignments and do not claim that the primary assignment of monetary policy is for external balance may be more credible than a (nominally) tighter and louder commitment."

Exchange rate commitments apart, the authors also call for broader policy coordination. "An exchange rate system that exhibits less hegemony and greater diversity of exchange arrangements than did the Bretton Woods system is not likely to function well unless an effective policy coordination process is in place," they point out.

The absence of a single, dominant leader for the system implies that the assignment of responsibilities will be less obvious than in the past, and decision making more interdependent. Also, the diversity of exchange arrangements probably makes it more difficult to write "rules of the game" for the system that are widely applicable and yet specific enough to make noncompliance transparent. The authors suggest that, in these circumstances, the "peer pressure" associated with policy coordination "can act to encourage responsible behavior . . . ." They caution that, without coordination, "there would be greater danger that the 'poles' of the international monetary system—and the countries grouped around them—might implement policies that have negative spillover effects on other countries."

Role of the IMF

In keeping with its mandate, as stated in its Articles of Agreement, the IMF provides the machinery for consultation and collaboration on international monetary problems. It does so through Article IV consultations with member countries, preparation of the *World Economic Outlook*, Executive Board discussions of exchange rate developments and other international issues, and by providing assistance to the Group of 7 policy coordination exercise. These multilateral surveillance activities are aimed at encouraging better macroeconomic and structural policies, thus reinforcing the operation of the exchange rate system.

The authors point out that, with the growth in interdependence and integration of global capital markets, bad policies of large countries can have significant external effects. Moreover, such policies can persist, even if they are ultimately unsustainable, because of high capital mobility. In such a setting, the need for multilateral surveillance—for careful, timely analyses of the repercussions of policies—is especially important.

The authors point out that the IMF "is in a good position to provide such analysis from a global perspective." They add that overseeing the functioning of the exchange rate system will involve "a host of thorny analytical issues," such as how to check the consistency of targets that large countries have for internal balance; how to estimate the cumulative effects of such countries' monetary and fiscal policy stances; how to distinguish "desirable" from "undesirable" external imbalances; how to evaluate the relative merits of different ways of correcting undesirable imbalances; and how best to estimate equilibrium exchange rates.

Characteristics of a Successful Exchange Rate System is No. 82 in the IMF's Occasional Paper series. Copies may be obtained for $10.00 each ($7.50 for full-time university students and faculty) from Publication Services, Box S-333, International Monetary Fund, Washington, D.C. 20431, U.S.A.

Bretton Woods Remembered

(continued from front page) it substantially reduced. Bernstein noted that, "in the end, no concession was made on the gold subscription, but the U.S.S.R.'s quota was raised to $1.2 billion"—only $100 million less than the quota for the United Kingdom and all its territories.

IMF Deputy Managing Director Richard Erb, providing a contrasting picture, described the new phase in relations that was inaugurated on October 5 with the signing of an agreement providing for a Special Association between the U.S.S.R. and the IMF. Under this arrangement, the U.S.S.R. will immediately receive wide-ranging technical assistance and policy advice from the IMF. "The Special Association between the U.S.S.R. and the IMF constitutes a vital undertaking, not only for the parties directly involved but for the global community as well," Erb said.

In a panel discussion, Stanley Fischer of the Massachusetts Institute of Technology asked rhetorically "why the West would want to be involved in the reform in the U.S.S.R." He provided three reasons: to prevent war among the republics, to stem westward migration from the U.S.S.R., and for humanitarian concerns.

More important, he maintained, was the enormous economic potential of the U.S.S.R., and the implications of that potential for global growth. In addition, he noted, "it is in our interest to help all of the Soviet republics with economic reform, in order to protect them from their own worst instincts," including a tendency toward mercantilism and a desire to establish their own currencies.

Of the three types of assistance the

U.S.S.R. needs—humanitarian, technical, and macroeconomic, or balance of payments—the third is the crux of the issue for the international institutions. The U.S.S.R. does not qualify for balance of payments assistance from the IMF or from the World Bank. The bulk of such assistance must, therefore, be bilateral, and lenders must realize that they are entering a highly risky venture.

Marshall Goldman, of the Russian Research Center at Harvard University, maintained that the U.S.S.R.'s problems were just beginning, with "nationalism running high" among the republics. It is "a country which, territorially, is being ripped apart," he said, with republics such as the Ukraine "setting up trade barriers to keep goods in."

Echoing Goldman's remarks, Robert Hormats, Vice Chairman of Goldman Sachs International, cited two revolutions taking place in the U.S.S.R.—one against communism and one against Russian imperialism. He maintained that it was hard to envisage a centralized economic union, given the massive political problems.

At a luncheon address, Dwayne Andreas, Chairman and Chief Executive Officer of the Archer Daniels Midland Company, proposed that the West sell food—on five-year terms—to the 10 largest cities in the U.S.S.R. The food could then be distributed through existing shops on the assumption that, if shop shelves are inundated with goods for the next four or five months, it might be possible to stop the hoarding that is exacerbating existing shortages. This arrangement would also establish the stability needed to decontrol prices, Andreas contended. He concluded by calling for $3–4 billion in immediate food credit for the U.S.S.R.

Pamela J. Bradley,
Senior Editor, *IMF Survey*

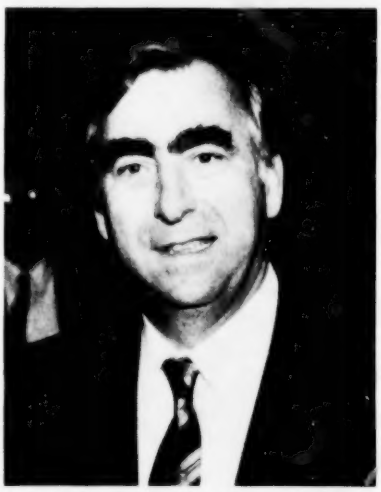
ANNUAL MEETINGS

Governors Discuss Economic Transformation

The economic transformation in the U.S.S.R. and Eastern Europe; the problems of global savings, trade, and external debt; and operational issues concerning the IMF and the World Bank were among the topics covered by more than sixty Governors during the plenary sessions of last month's Annual Meetings in Bangkok. IMF Managing Director Michel Camdessus, World Bank President Lewis Preston, and Interim Committee Chairman Carlos Solchaga also addressed the sessions, which were held on October 15–17.

Economic Transformation in the U.S.S.R. and Eastern Europe

U.S. Governor Nicholas Brady described the transformation in the U.S.S.R. and Eastern Europe as "an all-encompassing process," involving "every area of economic activity and policy." The international financial institutions play a "special role" in aiding this process, he said. In addition to offering advice on formulating comprehensive economic policy programs and financial support, they will have to provide "fundamental assistance that goes well beyond standard adjustment programs." Brady pointed out that the U.S.S.R. and Eastern European countries need help in building public and private economic institutions. They also need training in running profitable private businesses, practical advice on operating sound fiscal systems, and assistance in establishing workable legal systems for private enterprise.



Theo Waigel: Alternate Governor of the IMF for Germany: urging full membership for the U.S.S.R.

To assist in these areas, the IMF and the World Bank will "need to develop new modes of operation," according to Brady. Notably, they will have to increase their emphasis on the human capital component of programs. They will also have to send experts from several fields to reforming countries for extended periods, and to expand in-country contacts to all levels of government.

Theo Waigel, Alternate Governor of the IMF for Germany, urged the IMF and the World Bank to "push ahead with preparations for full membership [for the U.S.S.R.], so that the Soviet side may have access to the financial resources of these institutions." He identified important focal points for technical assistance as being energy, food supplies, transport, and the safety of nuclear power stations.

Waigel stressed the need for the U.S.S.R. to maintain its creditworthi-

ness. "Concrete steps must be taken to ensure that both the union and the republics meet old and new debt obligations," he said. Over the next few months, he anticipated that shortages in food and medical supplies would become more acute. He indicated that Germany was cooperating with other countries "to ensure that Western aid is provided without delay and that it reaches the places where it is needed."

Norman Lamont, Governor of the IMF for the United Kingdom, pointed out that "the collapse of the world's oldest centrally planned economy is perhaps the most important economic development of our lifetime." He maintained that help for the U.S.S.R. "is not at the expense of anyone. The whole world will benefit from the integration of a democratic Soviet Union into the world economy."

Referring to the U.S.S.R.'s macroeconomic situation as "little short of disastrous," Lamont saw large-scale financial assistance from abroad as being "a 'solution' unrelated to the problem." The immediate need, he said, was for "a drastic tightening of fiscal and monetary policy."

"An essential first step," he suggested, "is the settlement of economic policymaking responsibilities within the Soviet Union." But, however this turns out, institutional arrangements must bring inflation under control.

Lamont pointed out that, in the immediate future, the Group of 7 and the European Community (EC) would respond to Soviet appeals for food and medical aid. As fundamental reforms proceed, technical assistance will be made available. "Possible further measures of financial assistance will depend on developments . . . . If comprehensive reforms are enacted and the need for additional finance is clearly dem nstrated, we will stand ready to help," he said.

Speaking on behalf of the member

Andrés Bianchi, Governor of the IMF for Chile: acknowledging progress on the external debt situation.

states of the EC, W. Kok, Governor of the World Bank for the Netherlands, gave the assurance that the EC would fulfill "its responsibility to contribute to the integration of the Soviet Union in the world economic family" through technical and economic assistance and medical and food aid.

With regard to the countries of Central and Eastern Europe, Kok maintained that there was "no alternative to the present transformation course. . . ." He added that the EC would "live up to Eastern Europe's needs for increased market access."

The importance of such access was underscored by the Governor of the World Bank for Poland, Andrzej Topinski: ". . . we have embraced the principles of free trade and opened our markets to foreign competition," he said, adding "we expect all countries, especially the highly industrial ones, to do likewise."

Barend J. du Plessis, Governor of the IMF for South Africa, raised the issue of the timeliness of support for Eastern European countries. He cautioned that "the mere embarkation on a course of economic restructuring leads to rising expectations that may thwart the whole process unless timely external support is forthcoming to facilitate the early achievement of at least some of the goals or fruits of restructuring." In short, support "can come about too late," he said.

Among Governors from developing countries, Pakistan's Sartaj Aziz urged that assistance not be restricted or tied to certain regions or countries. In providing assistance, donors should encourage Eastern European countries and the Soviet Union to buy goods from the cheapest available source, which would help both the countries in transition and the developing countries that can provide the required goods at competitive prices, he said.

Anwar Ibrahim, Governor of the Bank for Malaysia, stressed that while support for Eastern European countries and the U.S.S.R.—as well as for countries affected by the Middle East crisis—was warranted, it should not be given at the expense of other developing countries, especially the poorest.

Global Savings

A number of Governors—including those from Canada, Ecuador, Italy, and Japan—highlighted the need for additional global savings to meet new demands for external financial assistance in Eastern Europe. Japan's Alternate Governor Mieno urged countries to increase domestic savings by reducing budget deficits. In view of the global capital shortage, both the IMF and the World Bank "will take on an increasingly important role," given their ability to supply member countries with needed funds, he explained.

Trade

Development Committee Chairman Alejandro Foxley expressed disappointment at the lack of progress in the Uruguay Round of multilateral trade negotiations, warning that if the

Round is not successfully concluded, "the prospects for economic growth in the developing world and in the industrial countries themselves will be threatened." "If all the existing barriers that prevent developing countries from selling their goods could be removed at a stroke," Foxley continued, "this would do more good for the developing countries than doubling the flow of aid—welcome though that would be."

External Debt

In their addresses, Governors focused mainly on progress under the strengthened debt strategy (which provides for debt and debt-service reduction on commercial borrowings) and on initiatives by official creditors.

Pointing to the success of the strengthened debt strategy, U.S. Governor Brady noted that Chile, Mexico, and Venezuela, which only recently were "mired in debt," are once again enjoying voluntary access to international capital markets, new investment, and returning flight capital.

Japan's Alternate Governor Mieno called on debtor countries to reach agreement with the IMF and the World Bank on programs of structural adjustment. Japan will continue its strong support for all countries that adopt disciplined economic policies and debt restructuring under the strengthened debt strategy, he said.

Mieno urged "great caution" in the area of official debt reduction, contending that such reduction "would discourage debtor countries that are now faithfully repaying their borrowings [from continuing to do so] and prevent developing countries from attracting new money."

Belgium's Governor for the Bank, Philippe Maystadt, also stressed the need to avoid such "moral hazard" in official debt reduction. He suggested that the IMF and the World Bank could look into temporarily increasing their lending to debtors making adjustment efforts, until commercial banks resumed loans to such debtors.

Barend J. du Plessis, Governor of the IMF for South Africa: economic restructuring leads to rising expectations.

Maystadt regretted the lack of consensus on using the debt-reduction agreements with respect to Egypt and Poland in the Paris Club as benchmarks for future relief to low-income countries. "An objective and nondiscriminatory application of the debt strategy would entail formal acceptance of the principle of a reduction of at least 50 percent in the debt stock of all low-income countries implementing fundamental structural adjustment programs," he said.

A number of Governors from other industrial countries—including those from Canada, France, and the Netherlands—also called for official debt relief for low-income countries on terms more generous than the Toronto terms. France's Governor for the Bank, Jacques de Larosière, added that, with respect to middle-income countries, the agreements on Egypt and Poland "neither constitute a general precedent nor can be considered absolute exceptions." Paris Club creditors should be allowed to provide debt relief on a case-by-case basis for those countries making strong adjustment efforts, he said.

Several Governors from developing countries also addressed debt issues. Pablo Better, Meetings Chairman and Governor for Ecuador, pointed out that despite progress in many Latin American countries, "the debt burden continues to loom large as a threat to our economic recovery." The crisis is "far from over," he said.

Speaking on behalf of the countries of Latin America and Spain, Governor of the IMF for Chile, Andrés Bianchi , acknowledged progress in the external debt situation. He also expressed satisfaction that debt- and debt-service-reduction operations—as well as the provisions of guarantees and financial enhancements—have come to form an integral part of IMF-supported programs. But further improvements in countries' access to voluntary credit would require industrial countries to liberalize bank provisioning regulations in respect of debtors that have made progress, he said.

With respect to official debt, Bianchi commended the debt-reduction packages adopted for Egypt and Poland in the Paris Club. He appealed for "equivalent operations to be carried out with other countries at comparable levels of development," as well as for further progress in implementing the Trinidad terms for low-income debtors.

IMF-World Bank Issues

Governors expressed strong support for increasing the resources of the IMF, the International Finance Corporation, and the International Development Association. Japanese Alternate Governor Mieno urged those members who have not yet consented to the IMF's quota increase or accepted the proposed Third Amendment of the Articles of Agreement to

complete their domestic procedures as promptly as possible. A number of others, including Interim Committee Chairman Solchaga, expressed similar concerns. Thailand's Governor Suthee Singhasaneh, while also calling for expanded IMF resources, nevertheless voiced regret that the members' quota increases under the review would take effect only after the proposed amendment of the IMF's Articles.

As during last year's meetings, some Governors again endorsed IMF Managing Director Camdessus' contention that "strong and sustained growth is, in the end, the only way to conquer poverty." Governors likewise supported World Bank President Preston's commitment to promote sustainable growth and reduce poverty.

Many Governors also endorsed the commitment of the IMF and the World Bank to assist the development process while preserving the natural environment. Governor Bonello du Puis of Malta, however, pointed out that "the resources of developing countries to meet environmental protection costs are very limited." Broadening the focus, Singhasaneh contended that developing countries were subjected to "stringent environmental conditions" imposed through the IMF and the World Bank—notwithstanding that primary responsibility for environmental degradation lies with the "industrial giants." They, too, should bear their fair share of the financial burden, he said.

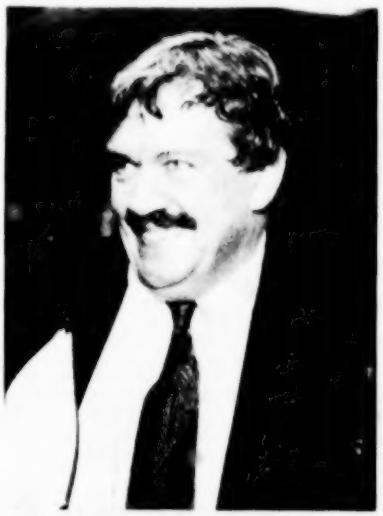
A number of Governors, including those from Belgium, Japan, Malta, and Pakistan, expressed support for a new allocation of SDRs. Pointing to the "acute" liquidity problems of developing countries, Malta's Governor du Puis justified such support, "particularly if it is accompanied by a redistribution linked to development needs."

Group of 24 Communiqué . . .

Ministers Express Concern For Poor Growth Prospects

Following is the press communiqué issued after the meeting of Ministers of the Intergovernmental Group of 24 on International Monetary Affairs held on October 12 in Bangkok:

Ministers of the Group of 24 on International Monetary Affairs held their forty-fifth meeting in Bangkok, Thailand on October 12, 1991. Mr. Rudolf Hommes, Minister of Finance and Public Credit of Colombia, was in the Chair, with Mr. Alhaji Abubakar Alhaji, Minister of Finance and Economic Development, Nigeria, and Mr. Khaled Mahayni, Minister of Finance, Syrian Arab Republic, as Vice-Chairmen. The meeting was attended by Mr. Michel Camdessus, Managing Director, International Monetary Fund; Mr. Lewis T. Preston, President, World Bank; Mr. Turan Kivanc, Advisor, Development Committee; Mr. K. Dadzie, Secretary General, UNCTAD [United Nations Conference on Trade and Development]; Mr. G. K. Helleiner, G-24 Research Coordinator; Mr. Cristian Ossa, Director, General Analysis and Policies Division, United Nations; Mr. Y. Seyyid Abdulai, Director-General, OPEC [Organization of Petroleum Exporting Countries] Fund; Mr. I. Osayimwese, OPEC; Mr. A. N. Hersi, Islamic Development Bank; Mr. Jose Rivera, Alternate Executive Director, SELA [Latin American Economic System]; Mr. Olivier Castro, Executive Secretary, CACM [Central American Common Market]; Mr. Mohamed Berrada, Morocco; Mr. Tarik Al-Tukmachi, Iraq; and Mr. Abdulaziz Al-Orayer, Saudi Arabia; Mr. Chen Yuan, Deputy Governor, People's Republic of China, attended as an invitee.



Rudolf Hommes, Minister of Finance and Public Credit for Colombia, and G-24 Chairman.

The Meeting of the Ministers was preceded on October 11, 1991 by the fifty-eighth meeting of the Deputies of the Group of 24 with Mr. Hernán Mejía of Colombia, as Chairman, and Mr. Mallam Usman of Nigeria, and Mr. Mohamed Wafik Hosny, representing the Syrian Arab Republic, as Vice-Chairmen.

ISSUES BEFORE THE INTERIM COMMITTEE

World Economic Outlook

1. Ministers expressed deep concern about the poor prospects for the world economy and the continued adverse impact of the external environment on the macroeconomic and structural adjustment efforts of developing countries, characterized by the slowdown in real output growth of industrial countries and in world trade volume as well as in the slow growth of developing countries' exports. They called upon the industrial countries to adjust their economies and enhance their policy coordination process with a view to ensuring sustainable global growth over the longer term, and to open their markets to developing countries' exports. While this requires a balance between fiscal and monetary policies, the goal should be for industrial countries to implement strong

fiscal discipline and remove structural obstacles in the trade and labor markets, to increase global savings, and to improve the use of resources for promoting strong output growth and trade.

2. Ministers expressed deep concern that the slowdown in the expansion of the world economy, together with the increasing production and stock of agricultural commodities, is contributing to a further deterioration of the terms of trade—to the lowest level since 1980—of fuel and nonfuel commodity exporting developing countries. They also noted with concern that the imposition by industrial countries of so-called environmental taxes on developing countries' products would contribute further to this deterioration.

3. Ministers reaffirmed the need for the IMF to enhance its role in overseeing the functioning of the international monetary system by increasing the effectiveness of its surveillance over macroeconomic policies of the major industrial countries in view of their continued growing fiscal deficits and protectionist policies, which are imposing pressures on global savings, and on real interest rates and exchange rates, seriously affecting the implementation of adjustment programs in developing countries. Ministers urged the IMF to prepare a report for presentation to the next meeting of the Group of 24 in 1992 to appraise the surveillance over the macroeconomic policies of the major industrial countries.

4. Ministers stressed that early approval of the quota increase under the Ninth General Review is necessary in light of the growing membership and the projected use of IMF resources. Ministers emphasized that, given the still restricted access of most developing countries to financial markets, and given their increasing demand for official financial flows, the present enlarged access policy should at least be maintained.

5. Ministers emphasized the need for a new and substantial allocation of SDRs to supplement global reserves, and they urged the industrial countries that are still opposed to a resumption of an allocation of SDRs to reconsider their position. They called upon the IMF's Executive Board, in addressing this subject, to explore the appropriate ways by which to make available the larger part of the new allocation to developing countries.

Management of the Debt Situation

6. Ministers called attention to the successful efforts being made by a number of countries, including some with heavy debt burdens in terms of conventional ratios, to weather external shocks while maintaining full debt-service payments and avoiding rescheduling. Ministers urged official creditors to provide appropriate support for these efforts so as to facilitate the retention of access to international capital markets and the provision of spontaneous financial flows to these countries.

7. Ministers expressed concern that the legacy of the debt crisis continues to undermine the success of developing countries' adjustment policies and their ability to achieve sustainable growth and attract more flows of foreign capital for investment and external financing. In this connection, Ministers called on the Bretton Woods institutions to continue supporting, with even greater resources and in a timely fashion, indebted developing countries' negotiations aimed at achieving debt relief and restoring their external creditworthiness and market access.

8. Ministers recognized that the decline in the debt-to-GDP ratio and debt-service ratio has been the most visible result of the strengthened debt strategy, especially for the 15 heavily indebted countries. In spite of this, Ministers noted with great concern that of the 6 countries that have successfully completed debt renegotiations, only 3 have gradually established voluntary access to capital markets. Ministers called the attention of multilateral institutions to the need for them to continue to support these countries in their efforts to secure and retain access to capital markets.

9. Ministers stressed the need for definitive and more rapid resolution of commercial bank debt negotiations in developing countries. They emphasized that any "value recovery" or "recapture" clauses in these negotiations should operate only in a prospective and symmetrical way. Ministers reiterated their request to the multilateral financial institutions to provide resources for "enhancements" in a sufficient, timely, and flexible manner. Ministers noted that the "front-loading" and "fungibility" of these resources have proven essential to the success of the strategy.

10. Ministers noted with concern that only 5 out of 50 countries that received Paris Club rescheduling in the 1980s had clearly exited from the rescheduling process by the end of the decade. They emphasized the importance of tailoring the restructuring and repayment schedules of the agreements reached in the context of the Paris Club or with commercial banks to the estimated debt-service capacities of debtor countries, and they called upon the creditors to move decisively to provide definitive resolutions of debt-service difficulties in the context of comprehensive adjustment programs.

11. Ministers noted with concern that the prospects for external viability remained very weak for many of the severely indebted low-income countries, despite the application of the Toronto terms, and they called upon the creditor countries to adopt additional debt-relief measures in line with the Trinidad and Tobago terms or those suggested by the Netherlands and Belgium. Ministers urged the creditor countries in the Paris Club to complete their negotiations on the implementation of the proposed Trinidad and Tobago terms as quickly as possible.

12. Ministers also urged that due attention be given to severely indebted middle-income countries, and they observed that the

SDR Rates

Week Beginning	Rate of SDR Interest and Charges (percent)
November 11	6.97
November 18	6.98

The rate of SDR interest and charges is calculated weekly, by reference to a combined market interest rate, which is the weighted average of interest rates on specified short-term domestic obligations in the money markets of the five countries whose currencies constitute the SDR valuation basket (U.S. dollar, deutsche mark, Japanese yen, French franc, and pound sterling). The interest rates used are those that prevail each Friday. For the latest weekly rates call (202) 623-7171.

Data: IMF Treasurer's Department

case-by-case approach suggested in the G-7 economic summit communiqué is relevant in this regard.

13. Ministers welcomed the treatment by the Paris Club of the debt of Poland and Egypt, and they invited the Paris Club to extend this treatment to lower-middle-income countries.

14. Ministers expressed concern that the restoration of new flows of financing to countries that have restructured their official debts is subject to significant delays. This timing element becomes particularly relevant for countries that have initiated comprehensive privatization programs and are in need of medium- and long-term financing to acquire new technology and capital goods to consolidate the efficiency gains resulting from private sector investment.

15. Ministers stressed that decisions on extending program loans and other credits by multilateral institutions, as well as the provision of commercial credits and new money by international banks, must be based exclusively on the technical merits of such loans and credits.

16. Ministers called upon the World Bank and the IMF to strengthen their capacity to provide and finance technical assistance regarding hedging instruments, including the appropriate selection of currencies borrowed, and risk management.

17. Ministers welcomed complementary initiatives to support economic reforms and debt-restructuring operations, such as the Enterprise for the Americas Initiative proposed by the U.S. Government for the Latin American and Caribbean countries, and they called for an expansion of such schemes to benefit similarly situated countries. They also urged other industrial countries to become participants in the implementation of such initiatives.

18. In light of the memorandum on the Cooke ratio and other bank practices prepared by the Banque d'Algérie at the request of the G-9 developing countries, Ministers noted with deep concern that the unduly restrictive regulatory, supervisory, and accounting practices have led to reluctance by the market to undertake sovereign risk lending. Ministers called on the industrial countries and the BIS [Bank for International Settlements] to improve those practices and regulations in order not to bias banks in industrial countries against lending to developing countries by requiring additional conditions that restrict voluntary credit and investment flows to developing countries.

Global Savings and Productive Use of Scarce Resources

19. Ministers expressed concern that since the late 1970s industrial countries as a group have shifted from being net suppliers to being net users of global savings, and they urged these countries to reverse the declining trend in their saving ratios by correcting their fiscal imbalances and implementing appropriate fiscal and monetary policies in order to achieve lower real interest rates and higher levels of economic activity in all countries.

Industrial countries have shifted from being net suppliers to being net users of global savings.

20. Ministers called upon the industrial countries to correct their external imbalances by, among other means, a transfer of resources to developing countries, thereby reintegrating the developing world into the international system and enhancing noninflationary global growth.

21. Ministers considered that in the post-cold war world it is necessary to capitalize as soon as possible on the dividends of the favorable climate for peace and economic development. This new climate favors the channeling of additional resources for economic development. Ministers cautioned against the involvement of the IMF and the World Bank in issues beyond their strict economic and financial mandate.

The Uruguay Round and Prospects for Trade Liberalization

22. Ministers noted with deep concern that, although an increasing number of developing countries have undertaken far-reaching macroeconomic adjustment programs and structural reforms, including the liberalization of trade, the prospects for a more favorable external environment have worsened further as a consequence of the failure to conclude the Uruguay Round of multilateral trade negotiations. In this connection, Ministers expressed concern that the use of nontariff barriers by industrial countries has grown significantly, voluntary export restraints and quotas have proliferated, price supports and subsidies have increased, and 20 of the 24 OECD [Organization for Economic Cooperation and Development] economies are, on balance, more protectionist now than they were 10 years ago. They therefore urged industrial countries to make a concerted effort and to show the political flexibility needed for the successful conclusion of the Uruguay Round.

23. Ministers noted with concern the adverse consequences for the efficient allocation of resources and the expansion of world trade that arise from existing protectionism, and they stressed that delay in reaching a successful conclusion of the Uruguay Round deprives the world of large welfare and efficiency gains. Keeping important areas—such as agriculture—largely or completely outside the realm of multilateral rules produces an inefficient use of fiscal resources, which are used to subsidize the agricultural sector to the extent of more than $300 billion; the trading environment is substantially weakened; and IMF policy advice is made more difficult.

24. Ministers urged the industrial countries to establish a genuine multilateral trading system with respect to agricultural commodities. Ministers called upon the industrial countries to eliminate distortions and remove the structural rigidities embedded in this sector of their economies, by reducing or eliminating agricultural support and protection, in order to allow for more open international trade on the basis of comparative and competitive advantage.

25. Ministers called on the IMF and the World Bank to continue to encourage

their members to expand trade on a multilateral basis and to ensure that regional and bilateral trade initiatives are compatible with a more open multilateral trading system. In this respect, Ministers also called on the IMF to strengthen the coverage of trade issues in all Article IV consultations with member countries, especially major industrial countries.

Recent Developments in Eastern Europe and in the U.S.S.R.

26. Ministers noted the significant changes taking place in the Central and Eastern European countries and in the U.S.S.R., and they pointed out that the prompt recovery of their output growth and their integration into the multilateral trade and financial system will have significant beneficial effects for the entire international community.

27. Ministers called on the IMF and the World Bank to provide these countries with technical assistance and [to] make available to member countries adequate financial resources to support their efforts in transforming their economies, without prejudicing resource flows to the developing countries. They also called on the industrial countries to provide financial assistance in support of the important new policies being implemented in the Central and Eastern European countries and in the U.S.S.R. They emphasized that this transfer of resources should not be at the cost of assistance to developing countries.

ISSUES BEFORE THE DEVELOPMENT COMMITTEE

The Development Priorities of the 1990s and Their Implications for the World Bank Group

28. Ministers welcomed the Bank report entitled *Development Priorities for the 1990s and Implications for the World Bank Group* and the broad consensus among members of the institution on the priorities of reducing poverty and promoting sustainable economic growth. Actions to protect the environment are essential to both objectives. The objectives call for more determined cooperation between industrial and developing countries, both through the multilateral institutions and bilaterally. It is now more urgent than ever that the Bank's motto "Partners in Development" be advanced in practical and concrete actions that cement this partnership for the mutual benefit of both the developing and industrial countries. In this respect, the new Bank publication, *Global Economic Prospects and the Developing Countries*, will play a useful role on a continuing basis in identifying and analyzing the economic linkages between developing and industrial countries.

29. Ministers stressed that the priority development goals for the 1990s cannot be attained without the mobilization of substantial external resources to support the adjustment efforts of developing countries. In this connection, Ministers expressed deep concern that the World Bank projections for 1991 indicate a decline in aggregate net flows in comparison with last year's level, and they expressed their support for the initiative currently being deliberated by the UN General Assembly on convening an international conference on the financing of development with the active participation of the World Bank and the IMF.

30. Ministers expressed deep concern about the growing problem of net negative transfers from the Bank to an increasing number of World Bank borrowing countries, and they called on the institution to undertake a comprehensive study of the issues involved and to present it for consideration to the Development Committee at its spring 1992 meeting. Ministers called upon the Bank to assist countries in this situation in finding new, viable investment projects to be financed by the Bank and to expedite disbursements by reviewing and enhancing the disbursement procedures, especially those for quick-disbursing loans. Furthermore, they urged the Bank to take steps within a specific time frame to solve the aforementioned problems and reverse the recent trend of negative aggregate net transfers from the Bank to developing countries. Likewise, Ministers urged the Bank to design and put into operation a wider menu of alternatives so that financial packages can best be tailored to countries' specific needs and thus facilitate a balanced flow of resources.

31. Ministers recognized that the achievement of the priority objectives for the 1990s needs to take into account the increasing diversity of conditions in the developing countries. The design of programs for attaining adjustment and development objectives must, more than ever, take into consideration the particular circumstances of individual countries.

32. Ministers expressed support for the emphasis by the World Bank Group on implementing the agreed development priorities across all relevant programs, rather than only through narrowly focused special programs. Country circumstances should dictate how lending is to be distributed among the particular sectors and the private/public sector mix that would be most effective in fostering sustainable development and reducing poverty.

33. Ministers encouraged the Bank to strengthen its lending operations while maintaining the importance of its nonlending services to members. Ministers urged the establishment in the World Bank of a permanent Technical Assistance Facility for all member countries, on a grant basis and financed through the Bank's net income and regular budget as well as through bilateral and multilateral cofinancing.

34. Ministers noted with concern that, although official development assistance [ODA] has assumed an important role, particularly for low-income countries, a sustained increase in those resources is not expected. In this connection, Ministers called on donor countries to review the scope for such an increase, especially where the reduction of international tensions would enable part of the "peace dividend" to be applied for this purpose.

35. Ministers noted that to implement the development priorities of the 1990s for sub-Saharan African and other low-income countries, a broad strategy is gaining wide acceptance, as demonstrated by the global coalition for Africa based on close collaboration between those countries and their partners in the international community.

36. Ministers drew attention to the growing need for resources to support enhanced poverty alleviation programs, structural adjustment, and the reduction of the debt burden of the developing countries. They

called for more determined efforts by the OECD countries to progress expeditiously toward reaching, within a defined time frame, the internationally agreed official development assistance target of 0.7 percent of their GNP.

37. Ministers called for closer collaboration between developing countries and official donors beyond the financing requirements of the developing countries. In this connection, they urged these donors to provide developing countries with technical assistance and to facilitate the transfer of technology in connection with project lending.

38. Ministers recognized the need for "good governance" and for effective management of development policies, and they welcomed the possibility of constructive dialogue with the Bank on all issues related to economic development. However, they urged the Bank to continue to be guided strictly by the limitations of its Articles of Agreement, as elaborated in the Legal Counsel's report, and to resist being drawn into political issues.

39. Ministers called on the industrial countries to increase substantially in real terms their contributions to the Tenth Replenishment of IDA [International Development Association] resources, and they pointed out that care should be taken to avoid any deviation from the central objective of IDA (i.e., poverty reduction) by refraining from the introduction of new forms of conditionality.

The Development of Human Resources in Developing Countries

40. Ministers said that, in light of the renewed emphasis on human resource development, they welcomed the Bank's report entitled *The Development of Human Resources in Developing Countries* and called on the World Bank Group to continue assessing the needs to support countries' efforts in this field, and they stressed the importance of substantially increasing the Bank's support for the development of human resources. Ministers welcomed the significant increase in human resource development lending by the World Bank in the past four years, and Ministers pointed out that the main challenge for countries is to devise the necessary political and technical

Currency Units per SDR

Currency	OCTOBER 22	23	24	25	28	29	30	31	NOVEMBER 1	4
Deutsche mark	2.306	2.31279	2.31029	2.30972	2.31213	2.31782	2.29341	2.28832	2.28331	2.26266
French franc	7.8624	7.8912	7.86424	7.87376	7.88044	7.90973	7.85508	7.81581	...	7.74419
Japanese yen	178.071	178.079	178.153	178.314	178.772	178.408	178.959	178.877	178.792	...
Pound sterling	0.793527	0.794561	0.793938	0.792776	0.794569	0.795909	0.786471	0.78468	0.786031	0.778029
U.S. dollar	1.35828	1.35576	1.35684	1.35858	1.36331	1.35209	1.3661	1.36852	1.36848	1.38178
Argentine austral	3453.8	3428.8	3450.4	3463.5	3404.5	3392.5	3531.2	3535.4	...	...
Australian dollar	1.70681	1.71593	1.73066	1.72694	1.7266	1.72219	1.73275	1.74368	1.75424	1.76743
Austrian schilling	16.2124	...	16.2563	16.2608	16.2708	16.3143	16.1705	16.099	...	15.9444
Bahrain dinar	0.510713	0.509766	0.510172	0.510826	0.508845	0.508386	0.513654	0.513812	0.514548	0.519549
Bangladesh taka	51.1936	51.0986	51.1383	51.2049	51.0063	50.9603	51.4883	51.5041	51.578	52.0793
Belgian franc	47.4515	47.5736	47.5403	47.4688	47.623	47.6848	47.4207	47.1518	...	46.8113
Brazilian cruzeiro	811.015	819.232	824.742	832.619	839.769	841.162	859.728	872.086	...	900.354
Canadian dollar	1.5301	1.52808	1.52685	1.52922	1.52247	1.5184	1.53372	1.53447	1.5327	1.5487
Colombian peso	917.939	916.521	918.336	919.813	916.705	916.717	927.076	928.277	930.717	...
Danish krone	8.91371	8.94327	8.947	8.93402	8.95959	8.96126	8.93224	8.88511	8.86638	8.80608
Ecuadoran sucre	...	...	...	...	...	...	...	...	...	...
Finnish markka	5.60426	5.58709	5.59697	5.6286	5.61488	5.63822	5.6174	5.58907	5.58835	5.5285
Guatemalan quetzal	...	...	...	...	...	...	...	...	...	...
Indian rupee	35.2723	35.0402	34.9968	35.1834	35.0723	34.9802	35.1887	35.4048	...	35.6104
Indonesian rupiah	2682.6	2678.98	2681.12	2685.91	2676.85	2674.43	2700.78	2701.61	2705.48	2731.78
Iranian rial	92.3	92.3	92.3	92.3	92.3	92.3	92.3	92.3	92.3	92.3
Iraqi dinar	0.422231	0.421448	0.421784	0.422325	0.420686	0.420307	0.424662	0.424793	0.425402	0.429536
Irish pound	0.862017	0.86536	0.860448	0.863193	...	0.865005	0.85902	0.856645	0.854126	0.847302
Italian lira	1724.06	1729.48	1726.78	1728.76	1728.01	1732.51	1718.62	1712.83	...	1697.79
Kuwaiti dinar	0.391253	0.39134	0.391652	...	0.39089	0.391241	0.393136	0.392465	...	0.394761
Libyan dinar	0.383929	0.383929	0.383929	0.383929	0.383929	0.383929	0.383929	0.383929	0.383929	0.383929
Malaysian ringgit	3.73323	3.73037	3.73402	3.73406	3.72702	3.72704	3.75336	3.75315	3.7599	3.78953
Maltese lira	...	...	...	...	...	...	...	...	...	...
Mexican peso	...	...	...	...	...	...	...	4197.48	...	...
Nepalese rupee	57.9986	57.891	57.9371	58.0114	57.7863	57.7342	58.3325	58.3504	58.4341	59.002
Netherlands guilder	2.59757	2.6078	2.59279	2.601	2.60593	2.60669	2.58808	2.58028	2.57233	2.55132
Norwegian krone	9.0312	9.05173	9.0508	9.03659	9.06379	9.07726	9.03019	8.97407	8.95848	8.90557
Omani rial	0.522259	0.52129	0.521705	0.522374	0.520348	0.519879	0.525285	0.525427	0.526181	0.531294
Pakistan rupee	33.5654	33.5031	33.5298	33.5728	33.4426	33.4124	33.7996	33.81	33.8585	34.1876
Portuguese escudo	198.495	198.977	198.801	198.539	198.835	199.097	197.199	196.62	...	194.668
Qatar riyal	4.94414	4.93497	4.9389	4.94523	4.92605	4.92161	4.9726	4.97413	4.98127	5.02968
Saudi Arabian riyal	5.08676	5.07732	5.08137	5.08788	5.06815	5.06358	5.11604	5.11762	5.12496	5.17477
Singapore dollar	2.30093	2.29869	2.30229	2.30143	2.29927	2.29909	2.31281	2.3086	2.30886	2.32277
South African rand	3.85481	3.86124	3.86025	3.86718	3.86031	3.86422	3.87425	3.87204	3.86806	3.87455
Spanish peseta	145.269	145.622	144.898	145.253	145.439	145.467	144.563	144.18	...	142.551
Sri Lanka rupee	57.2651	57.2131	57.2722	57.3457	57.1367	57.1528	57.7314	57.7218	57.8046	58.3526
Swedish krona	8.39417	8.41827	8.41037	8.40146	8.42571	8.43975	8.39805	8.34465	8.33404	8.2893
Swiss franc	2.01772	2.0194	2.01966	2.02293	2.02766	2.03084	2.00817	2.01015	2.00824	1.99391
Trinidad and Tobago dollar	5.78712	5.77638	5.78099	5.7884	5.76695	5.76075	5.82044	5.82223	5.83058	5.88723
U.A.E. dirham	4.98625	4.97699	4.98096	4.98735	4.968	4.96352	5.01496	5.01649	5.02368	5.07251
Venezuelan bolivar	81.4968	...	81.58	81.6507	81.2663	81.2944	82.2392	82.0595	82.2114	...

Note: The value of the SDR in terms of the U.S. dollar is determined as the sum of the dollar values, based on market exchange rates, of specified quantities of the first five currencies shown above. The value of the SDR in terms of any currency other than the U.S. dollar is derived from that currency's exchange rate against the U.S. dollar and the U.S. dollar value of the SDR. Exceptions are the Iranian rial and the Libyan dinar, the values of which are officially expressed directly in terms of currency units per SDR.

Data: IMF Treasurer's Department

mechanisms to integrate long-term human development policies with macroeconomic policies, adequate environmental management, demographic factors, and development of infrastructure.

41. Ministers welcomed the recognition by the Bank, in its issues paper on human resource development, that financing of recurrent costs is essential for a successful assistance strategy for human resource development. Ministers urged the Bank as well as other donors to speedily incorporate the concept of recurrent cost financing into their aid strategies for human resource development.

42. Ministers noted that governments must continue to bear the main responsibility for human resource development. However, Ministers stressed the need to involve the private sector in this field.

The World Bank Group's Progress in Expanding Its Private Sector Activities

43. Ministers noted the strong emphasis placed by the World Bank Group on private sector development in the context of its existing private sector development strategy, endorsed by the Board in 1989. They urged the World Bank Group to help to mobilize from other multilateral and bilateral donors sufficient additional financing to support and enhance the role of the private sector in developing countries while strengthening its traditional lending orientation to governments.

44. Ministers emphasized that a proper balance should be struck between the roles of the public and private sectors; they expressed concern about the impact on public

Jesus P. Estanislao, Governor of the Bank for the Philippines and member of the Group of 24.

sector infrastructure and institution building of the intensified support being given by the World Bank Group to privatization, and they called on the World Bank Group to lend sufficient resources to meet the social and other costs arising from the implementation of this policy. In that connection, additional attention should be given by the Bank and the IMF to facilitating the design, financing, and implementation of adequate safety nets. Ministers called on the IFC [International Finance Corporation] to expand its activities in all developing countries, following the recent agreement on the capital increase for the IFC, and to ensure a better distribution of its activities in different regions. Ministers noted the role that the MIGA [Multilateral Investment Guarantee Agency] could play in furthering the flows of direct private investment to developing countries.

The World Bank's Report on Women in Development Activities

45. Ministers welcomed the Bank's progress report on women in development activities and recognized the efforts by the Bank in the implementation of the operational strategy on WID [Women in Development], and they emphasized the need to continue working to ensure that women's concerns are fully integrated into all aspects of development policies and programs. Ministers stressed that programs for the advancement of women should be designed in the context of the specific circumstances of each country in terms of the country's stage of development and its sociocultural, religious, political, and economic characteristics.

REPRESENTATION IN THE IMF AND THE WORLD BANK

46. Ministers underscored, in view of the expanding membership of the Bretton Woods institutions, the critical importance of preserving the genuine multilateral character of these institutions, and they reiterated that such new membership should not adversely affect the present geographical representation of developing countries in the Executive Boards of the IMF and the World Bank. Ministers also reiterated the importance of ensuring an adequate representation of developing countries in the senior management of the Bretton Woods institutions.

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IMF SURVEY

A PUBLICATION OF THE INTERNATIONAL MONETARY FUND

December 2, 1991

A Retrospective on Bretton Woods Reveals Strengths and Weaknesses

On August 15, 1971, U.S. President Nixon closed the gold window, bringing to an end the Bretton Woods International Monetary System as it was conceived in July 1944 at the Mount Washington Hotel in Bretton Woods, New Hampshire. Twenty years later, on October 3–6, close to sixty economists gathered at the Mount Washington Hotel under the auspices of the National Bureau of Economic Research (NBER) to discuss the origins of the Bretton Woods System, to debate its merits, and to explore the need to restore elements of a system that coincided with the most stable period in the global economy in this century.

Michael Bordo of Rutgers University and the NBER opened the three-day discussion with an historical overview of the Bretton Woods System of fixed but adjustable par values, from its origins at the 1944 conference to its ultimate collapse in 1973.

The architects of the Bretton Woods System, Bordo pointed out, wanted a set of monetary arrangements that would combine the advantage of the classical gold standard (exchange rate stability) with the advantages of floating rates (independence to pursue national full employment policies). The system they conceived was an adjustable peg system of fixed parities that *(Please turn to page 358)*

Michael Bordo: combining the advantages of the gold standard with those of floating rates.

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SELECTED TOPICS

Stock Markets Not a Priority for Many Developing Countries, Says Rotberg

The development of stock markets should not be a priority in many developing countries, and, indeed, could be counterproductive, according to Eugene Rotberg, formerly Vice President and Treasurer of the World Bank. Rotberg, who is currently a financial adviser to governments and the private sector, was speaking at a seminar entitled "Emerging Stock Markets" held at the IMF Visitors' Center on October 29. The seminar was part of the Economic Forum series, a regular feature at the center.

"The essential public policy issue," according to Rotberg, "is whether the development of stock exchanges correlates with GNP, per capita income, or the standard of living." He added that such exchanges "are at best the flame on the candle or the icing on the cake—and in many countries they haven't even built the cake yet."

"Imagine a country," said Rotberg, "without a developed legal structure or system of property rights, an uncertain tax system, no accounting system, massive subsidies, no free-market pricing, no penalty for risk taking or for credit risk, an inconvertible currency; a country that has not yet determined in a practical, functional sense what the concept of ownership means. Such a country has other priorities." He maintained that creating a country fund or a stock exchange at this time would inevitably distort priorities and draw resources away from the productive sector.

Rotberg indicated that investments in emerging stock markets or country funds are not directed to companies or to the productive sector but merely reflect shifts by investors from one asset to another. The preoccupation with establishing stock markets can be wasteful, he claimed, in that "it attracts many talented people into an unproductive enterprise—that is, into being middlemen in the transfer of assets—with no impact whatsoever on countries' growth." Nor do stock markets create liquidity. Rather, "they facilitate the 'liquification' of what otherwise might be less liquid assets—primarily among those who neither own nor manage those assets."

Eugene Rotberg: stock markets are not essential for future economic growth.

In addition, Rotberg pointed out that in many developing countries—especially those where property rights and legal systems are weak—stock markets "are going to get manipulated for the benefit of insiders." This would lead to a greater concentration of wealth and thus to disillusionment among the poor, who cannot possibly participate but who may have rising expectations.

Rotberg argued that, even in countries that have strong entrepreneurial or mercantilist traditions and where there is a well-established sense of private ownership, stock markets are not essential for future economic development. He added that many industrial countries—including Germany and Switzerland—developed with hardly any such markets; development was fueled by private equity and bank credit.

"All this does not mean there should never be stock markets," Rotberg said; "it simply means that those in public policy need not do handsprings to bring about financial liberalization when this can distort decision making, the allocation of resources, and expectations."

In his presentation, Peter Tropper, Chief of the Emerging Markets Data Base Unit at the International Finance Corporation, focused on major trends in emerging stock markets over the last five years.

Tropper noted that, as developing country governments have increased

Photo Credits: Pamela Bradley, IMF, pages 353, 358–361; Denio Zara and Padraic Hughes Reid, IMF, pages 354, 355, 357; Jenaro Simpson, IMF, page 356; Embassy of Burundi, page 368.

the scope for the private sector, emerging markets have grown rapidly in recent years. In 1991 (up to September), the five best-performing stock markets in the world were emerging markets (Argentina, Brazil, Chile, Mexico, and Pakistan). Moreover, "1991 was no fluke," he said, adding that over the last five years, Latin American and Asian stock markets have outperformed those in major industrial countries.

However, the worst-performing stock markets in 1991 were also emerging markets, Tropper pointed out. He noted that such markets are

Peter Tropper: emerging stock markets have grown rapidly in recent years.

more volatile than those in industrial countries because they are often small and thinly traded, with few listings.

Tropper suggested that investing in emerging markets can be useful as a means of diversification because their performance does not necessarily correlate with that of the U.S. stock market. However, investors often find emerging stock markets difficult to enter or complicated to monitor. "The easy answer," said Tropper, "is to invest in country funds." He noted that there are now more than two hundred such funds and that their total capitalization exceeds $10 billion.

Tropper identified the following trends for emerging stock markets in the future:

- with increasing privatization, the depth and liquidity of emerging markets will increase;
- the growth in the number of country funds will begin to slow down as emerging markets become easier to invest in directly;
- more companies from emerging markets will seek listings on major industrial country stock markets; and
- emerging markets will witness a number of structural improvements, such as computerization, better regulatory standards and mechanisms, and more openness to foreign investment.

Ishac Diwan, Senior Economist at the World Bank, focused on the characteristics of emerging stock market country funds and their merits as investment instruments. He pointed out the following:

- Country funds are usually "closed-end" funds—which differ from "open-ended" funds in that the shares cannot be redeemed. Therefore, investors are faced with uncertainty as to whether such funds will trade at a premium or discount to their underlying net asset value.
- "Premiums and discounts have a life of their own." In 1989, the average premium on country funds reached 40 percent, whereas, in 1990, the average discount on such funds touched 16 percent.
- Country funds tend to be volatile and risky. During 1989–91, for example, they have fluctuated by more than the Standard and Poor's 500 Share Index (S&P 500).

Turning to the merits of emerging market country funds as investment instruments, Diwan demonstrated that, by combining such funds with shares in the S&P 500, it is possible to produce a portfolio that is both less

Ishac Diwan: country funds tend to be volatile and risky.

risky and yields a higher return than either of the two kinds of assets taken individually. He stated that this is because a very small part of the risk attached to emerging market country funds is correlated to risks associated with shares in the S&P 500. "Much of the risk can be diversified away," he said. Diwan demonstrated that, during 1989–91, it was possible to produce a portfolio containing emerging stock market country funds that had the same risk as that associated with the S&P 500 but that yielded 5 percent a year more return.

Vikram Khanna,
Assistant Editor, *IMF Survey*

SDR Rates

Week Beginning	Rate of SDR Interest and Charges (percent)
November 25	6.99

The rate of SDR interest and charges is calculated weekly, by reference to a combined market interest rate, which is the weighted average of interest rates on specified short-term domestic obligations in the money markets of the five countries whose currencies constitute the SDR valuation basket (U.S. dollar, deutsche mark, Japanese yen, French franc, and pound sterling). The interest rates used are those that prevail each Friday. For the latest weekly rates call (202) 623-7171.

Data: IMF Treasurer's Department

Nongovernmental Organizations Seek Socially Just Development Alternatives

More than one thousand representatives from international and Thai nongovernmental organizations (NGOs), observers from the IMF and the World Bank, and members of the press met recently in Bangkok, Thailand to discuss options for economic development that are socially just, economically viable, and environmentally benign. Participants met at Chulalongkorn University on October 8–17 to attend the People's Forum, a meeting organized by Thai NGOs in cooperation with academics, students, social activists from local organizations, and international NGOs.

The Forum, which was held parallel to the 1991 World Bank/IMF Annual Meetings, attempted to define alternatives to the prevailing concepts of economic development and progress. During the first three days, participants examined socioecological aspects of economic development in Thailand, turning to development issues from an international perspective during the remainder of the Forum.

Dr. Saneh Chamarik, Chairman of the NGO Coordinating Committee on Rural Development, convened the Forum with a critique of the concept of modern development, which, he said, made the prosperous private sector minority the engine of growth and progress while marginalizing the majority of the population and excluding them from the country's political, economic, and social development. He also warned against development that equates humans with labor and nature with raw materials, and confuses sectoral growth with economic growth for the entire nation. He pointed to the need to shift away from growth-centered development, whereby the great many come under the domination of the few, to people-centered development, which regards people and nature as the proper focus of development. Dr. Chamarik asserted that the people likely to be affected have a right to be informed about development plans, and, therefore, governments and international financial institutions have an obligation to make project documents available for public review.

Chulalongkorn University: host of the People's Forum and discussions of development alternatives.

Over one hundred speakers from 45 countries reviewed the effect of modern development on natural resources, such as land, water, fossil fuels, and forests, and discussed the effects of urban slums and industrial centers on ecosystems and local populations. The common thread running through all the presentations was a plea to governments and international financial institutions to stop treating people and nature as consumable trade-offs for economic growth. Participants reviewed several NGO initiatives for human resource development and alternative strategies to conserve natural resources. Emphasis was put on economically viable and ecologically sound agriculture, and on the use of energy resources compatible with traditional ways of life and the environment. Participants also addressed the effects of the new Thai tourism infrastructure on land tenure and the availability of arable land; and those of new water management projects on watershed systems and the way of life of adjacent populations. Speakers also cited human rights violations associated with economic development.

At the end of the Thai portion of the Forum, local NGOs issued a declaration in favor of people-oriented development and resource management, including a call for development of water and energy resources through popular participation in their operation and in the allocation of benefits, together with the implementation of proper conservation and management policies. NGOs also called for more efficient management of community forests and recognition of the rights and obligations of the coastal communities to maintain and benefit from their local resources. They affirmed that long-term rural development must be based on agricultural alternatives that stress the stability of food production and preservation of factors of production, such as soil and water. They hoped for a balanced urban development, in which housing needs are given serious consideration.

Jenaro D. Simpson,
IMF, External Relations

Exchange Rate Changes Have Brought Current Account Adjustment, Says MIT Economist

Exchange rate adjustments over the past five years have brought about substantial—if not yet complete—corrections in the current account balances of Germany, Japan, and the United States, according to Paul R. Krugman of the Massachusetts Institute of Technology. In a study entitled *Has the Adjustment Process Worked?*, Krugman presents an analysis based on a series of in-depth country studies that focus on the balance of payments adjustment process.

Krugman reviews the performance of the three largest industrial countries—Germany, Japan, and the United States—and concludes that, despite initial doubts among policymakers and economists, currency realignments undertaken in the middle to late 1980s were able to bring about corrections in the current account positions of these countries. He points out that

- the German surplus of $55 billion in 1989 (4.6 percent of GNP) has virtually disappeared and will probably shift into deficit for the whole of 1991;
- the Japanese surplus fell from a peak of about $87 billion in 1987 (3.6 percent of GNP) to $47 billion (1.7 percent of GNP) in 1990, although it rose again in 1991; and
- the U.S. current account deficit declined from a high of $162 billion in 1987 (3.6 percent of GNP) to $42 billion (0.8 percent of GNP) in the first half of 1991.

More recent shifts in the current account behavior of these countries, Krugman concludes, suggest that the conventional wisdom has once again triumphed. "To a man from Mars . . . it is the apparent stability of the relationship between exchange rates, incomes, and trade flows, not the drift and errors in that relationship, that would surely seem most remarkable," he maintains.

In making his case, Krugman acknowledges and explains some apparently unique circumstances that appear to have complicated the normal adjustment process in the late 1980s. In the United States, for example, despite

Paul R. Krugman: unique circumstances complicated the normal adjustment process in the late 1980s.

a substantial dollar devaluation, the current account took a long time to right itself. Krugman attributes this to the United States' failure to "carry out the textbook experiment of devaluing its currency from an initial equilibrium position, while holding all else equal." Instead, he points out, the dollar's decline followed a period of rise and took place against a background of continuing economic recovery.

Krugman further maintains that not all the direct effects of previous dollar rises had worked their way through to trade volumes, so that some continuing rise in the deficit was, in effect, "in the pipeline." In addition, because of the previous rise in the dollar, by 1985 U.S. imports greatly exceeded U.S. exports; this created a "gap factor," in which the growth in imports stimulated by economic recovery tended to raise the deficit in the absence of a significantly *faster* rate of increase in exports.

Likewise, Krugman maintains, after some initial difficulties, Japan's adjustment experience closely followed that of the United States. The behavior of Japan's current account from 1985 to 1988 seemed to refute flatly any model predicting that exchange rate changes would actually produce international adjustment.

From its trough in the first quarter of 1985, the yen nearly doubled in value against the dollar, Krugman points out; however, Japan's current account surplus in dollar terms was higher in 1988 than in 1985. "Not too unreasonably, this apparent lack of adjustment provoked both political outrage and analytical soul-searching," he notes. Krugman nevertheless concludes that the apparent stubbornness of Japan's external surplus over this period was more apparent than real: "the key point is that the stability of the nominal surplus masks a sharp change in real trade flows . . . ." In volume terms, Japanese net exports fell sharply, relative to GNP, while imports rose. In constant prices, the current account surplus fell by almost 4 percent of GNP.

Compared with Japan and the United States, Germany, in its adjustment experience since 1985, has

"marched to a quite different drummer," according to Krugman. While the mark rose against the dollar in tandem with the yen, Germany's current account surplus, far from declining, more than tripled in dollar terms from 1985 to 1989, rising from 2.6 percent of GNP to 4.6 percent.

Germany's apparent defiance of the conventional wisdom on trade adjustment is, like Japan's, more apparent than real, Krugman maintains. He points out that Germany's external surplus with non-European countries, especially the United States, has shown the kind of correlation with the real exchange rate that one would expect from the U.S. and Japanese experiences. Moreover, even the increase in Germany's surpluses with the rest of Europe can be explained in part by currency movements: the deutsche mark depreciated in real terms throughout most of this period.

Although the traditional adjustment process has held up "remarkably well," Krugman says, there is still widespread skepticism about Japan's ability to correct external payments imbalances, stemming from the experiences of the 1980s. This was an era of spectacular gyrations in the international economy. The deepest recession since the 1930s, the rise and fall of the dollar, the debt crisis, and the emergence of current account imbalances on a scale not seen since the 1920s seemed to lead to one inexorable conclusion: pet theories of international macroeconomics and finance had been destroyed. As a result, many analysts began to question seriously whether exchange rate adjustment could still be effectively employed to correct large external imbalances.

In defending the conventional wisdom—which Krugman terms the "Mass Ave. model," alluding to the picture of the global economy shared by economists who work on or near Massachusetts Avenue in Cambridge, Massachusetts, and in Washington, D.C.—the author takes aim at three separate "exotic" theories, each of which, he asserts, incorrectly predicted that the large current account imbalances of the mid-1980s would persist. The first theory is that of the "structuralists," who, says Krugman, "argue that exchange rates do not work as an adjustment mechanism, or at any rate work only at an unacceptable cost." They argue that "something else"—at best, an industrial policy and, at worst, simple protectionism—is needed.

The second theory is that of the "shmooists" (named for a cartoon character—the shmoo—invented by Al Capp), who, along with the structuralists, maintain that exchange rate shifts play little, if any, role in reducing external imbalances. To remedy this problem, shmooists advocate that currencies should be fixed and that the task of external adjustment should be left to macroeconomic policy.

Finally, there are the "secularists," who insist that the root cause of the U.S. external imbalance is a long-term decline in underlying American competitiveness, which can be corrected only through long-term policy reforms in education and public infrastructure.

While acknowledging that the last decade has "profoundly shaken" the confidence of economists in the conventional wisdom, Krugman concludes that, in comparison with more exotic theories, proponents of the conventional wisdom are closer to the truth in arguing that the international adjustment process does—in the end—work.

John S. Starrels,
IMF, External Relations

Copies of *Has the Adjustment Process Worked?* are available for US$12.95 each from the Institute for International Economics, 11 Dupont Circle, N.W., Washington, D.C. 20036-1207.

Bretton Woods: Success Or Failure?

(continued from front page) could be changed only in the event of a fundamental disequilibrium. Members of the IMF were urged to declare a par value in terms of either gold or the U.S. dollar and to maintain it within a 1 percent margin on either side of parity. Parity could be changed in the event of a fundamental payments disequilibrium at the discretion of the member, after consultation with the IMF. Unauthorized changes in the exchange rate could make members ineligible to use the IMF's resources and, if they persisted, could lead to their expulsion.

Kathryn Dominguez: no consistent enforcement of the rules of the game.

Bordo noted that the international monetary system that evolved after World War II was far different from the system envisioned at Bretton Woods. In particular, it took 12 years from the declaration of official par value by 32 nations in December 1946, to full convertibility of the major industrial countries as specified by the Bretton Woods Articles.

During the preconvertibility period, Bordo pointed out, the dollar emerged as the key currency of the international monetary system, eclipsing the pound sterling as the dominant currency in world reserves. The growing private and official demand for dollars was supplied through private and official long-term capital outflows from the United States, which produced a series of balance of payments deficits beginning in 1950. By 1958–59, these balance of payments deficits had become a source of policy concern, Bordo noted, and the United States began to institute the first of many policy measures that attempted to stem the tide.

Despite emerging signs of weakness in the system by the end of the 1950s, a comparison of the performance of alternative monetary regimes in seven countries revealed that both real and nominal variables were most stable in the subsequent period, 1959 to 1970, prompting Bordo to call the period 1959 to 1967 "the heyday of Bretton Woods." The system had become a gold dollar standard, whereby the United States pegged the dollar to the price of gold, and the rest of the world pegged their currencies to the dollar.

According to Bordo, "the Bretton Woods System collapsed between 1968 and 1971 in the face of massive U.S. monetary expansion, which created worldwide inflation." While the United States broke the implicit rules of the dollar standard by not maintaining price stability, the rest of the world did not want to absorb dollars and inflate and were also reluctant to revalue their currencies.

Another important source of strain on the system, according to Bordo, was "the unworkability of the adjustable peg under increasing capital mobility." Speculation against a fixed parity could not be stopped by either traditional policies or international rescue packages.

Bordo offered a number of reasons for the short life of the Bretton Woods System. First, it had two fatal flaws in design: the gold exchange standard and the adjustable peg. Second, the United States failed to maintain price stability after 1965. And, third, other major industrial countries were reluctant to follow U.S. leadership when it conflicted with their national interests.

Within the historical context provided by Bordo, Kathryn M. Dominguez of Harvard University and the NBER considered the effectiveness of the Bretton Woods institutions in their roles as facilitators of the international monetary system. These institutions, she said, were established to provide a set of rules of cooperation, financial resources to enable member countries to play by the rules, and a centralized source of information on each other's commitment to the rules.

Alberto Giovannini: testing the rules-versus-discretion theory of exchange rates.

Dominguez contended that, in practice, the "Bretton Woods institutions had limited success convincing their members to maintain cooperative arrangements," because both the carrot and the stick employed by these institutions were weak commitment mechanisms. The institutions rarely wielded the stick in that they did not consistently enforce the rules of the system. And an analysis of the IMF's carrot, she maintained, "suggests that under certain conditions countries were not provided adequate financial resources to maintain cooperative behavior."

Although the IMF and the World Bank were ultimately unable to convince countries to maintain cooperative behavior as defined by the Bretton Woods Agreement, "to their credit they survived the collapse of the Bretton Woods System by evolving with the changing economic environment," Dominguez pointed out.

Alberto Giovannini of Columbia University, the Centre for Economic Policy Research, and the NBER compared the Bretton Woods international monetary regime with that of its predecessors—in particular the classical gold standard—to test the rules-versus-discretion theory of exchange rates. In a presentation entitled "Bretton Woods and Its Precursors: Rules Versus Discretion in the History of International Monetary Regimes," Giovannini noted that the historical experience of the past one hundred years "seems to be suggesting that floating rates are temporary arrangements that are resorted to whenever large enough shocks hit the world economy, but that, in the absence of shocks, countries go back to fixed rates." According to this rules-versus-discretion theory, fixed exchange rates provide valuable commitments to national monetary authorities, and governments abandon them only when external shocks make it too onerous for them to "tie the hands" of monetary authorities.

Three basic assumptions underlie the argument in favor of monetary policy rules, according to Giovannini. They are the following:

• That monetary authorities have ob-

jectives that conflict with those of the public.

• That the effects of monetary policies on the economy depend on the extent to which they surprise the public; that is, if the public can correctly anticipate policy actions, it will try to minimize any undesirable effects of them by taking actions so as to neutralize them.

• That the public forms expectations rationally; and monetary authorities cannot manipulate private sector expectations.

The implication of these assumptions is that, in economies where monetary authorities are not subject to external rules, the equilibrium is one where the attempts of officials to surprise the public are frustrated by the public's anticipation of such behavior: inflation is higher and expansionary monetary policies are neutralized.

The value of rules is that to the extent the rules are credible—that is, the government cannot renege on them—the public expects that they will be followed. And to the extent that monetary rules are sufficiently restraining, the public's inflationary expectations will be moderated. Equilibrium inflation will, therefore, be lower than under a discretionary regime.

The basic hypothesis, according to Giovannini is that, since monetary rules are preferred to discretion, there is a tendency to impose such rules whenever macroeconomic conditions are not "too unstable." In other words, floating rates are "unstable" regimes that are abandoned whenever the conditions justifying their adoption (large enough external shocks) disappear.

Giovannini pointed out that between the two world wars, "the majority of economists and policymakers viewed the convertibility rules of the classical gold standard as powerful guarantors of the stability of financial markets and of the international monetary system." However, he noted, when policymakers designed the Bretton Woods institutions in the years following World War II, they "brushed aside the concept that credible monetary commitments are valuable, and attempted to substitute the fixed convertibility rules of the gold standard with some form of monetary policy coordination."

According to Giovannini, the evidence from financial markets and foreign exchange markets suggests that "*during the gold standard years*, the rules of the international monetary system were probably more credible, and helped stabilize expectations more, than under the Bretton Woods regime."

"A set of policy ideas inspired by Keynesianism and embraced by a group of well-placed British and American economists . . . "

G. John Ikenberry of Princeton University provided an alternative perspective on the Bretton Woods System in a paper entitled "The Political Origins of the Bretton Woods System." In his presentation, Ikenberry proposed that the Bretton Woods agreements were remarkable in a variety of ways:

• They represented an unprecedented experiment in international rule making and institution building.

• They were the decisive step in the reopening of the world economy.

• Bretton Woods created an entirely new type of open international monetary system—something that the capitalist world had not seen before.

Ikenberry sought to answer why the system took on the features that it did, and how agreement was achieved amid the divergent and conflicting national and bureaucratic positions represented by the United Kingdom and the United States. He argued that "a set of policy ideas inspired by Keynesianism and embraced by a group of well-placed British and American economists and policy specialists were crucial in defining government conceptions of postwar interests, building coalitions in support of the postwar settlement, and legitimating the exercise of American power, particularly as these experts engineered a shift from the contentious trade issues to the monetary issues where there was an emerging 'middle ground' created by Keynesian ideas."

The crux of the argument, according to Ikenberry, "is that a transatlantic group of economists and policy specialists, united by a common set of policy ideas and a shared view that past economic failures could be avoided by innovative proposals, led their governments toward agreement by identifying a set of common Anglo-American interests that were not clearly discernible to others." Ikenberry emphasized how the community of experts served to identify a middle ground between previously unbridged positions and, as a consequence, provided opportunities for new political coalitions (both within and across nations).

Robert Triffin of the Université Catholique de Louvain cautioned that the disintegration of the U.S.S.R.'s real or imagined military and economic strength "has now changed radically prospective Western poli-

cies." In a paper entitled "The International Crime of Central and Commercial Banks: The Gold or Paper Foreign Exchange Standard," Triffin argued that, because the central and commercial banks of almost all surplus countries invest their surpluses in foreign currencies, they have willingly financed not only the external deficit but also the domestic fiscal deficit of reserve currency countries—until recently almost exclusively the United States. The two major creditor countries, Germany and Japan, considered such financing as fair compensation for the United States' disproportionate share of joint military defense expenditures. The disappearance of a Soviet threat brings into doubt the surplus countries' continued willingness to participate in this "exorbitant privilege" accorded to the United States, Triffin contended.

An important question in the current debate regarding the desirability of a return to fixed rates, noted Sebastian Edwards and Julio A. Santaella of the University of California at Los Angeles, revolves around how effective discrete and substantial devaluations are in the context of a fixed rate regime. By evaluating the role of devaluations in developing countries during the Bretton Woods period of fixed exchange rates, Edwards and Santaella attempted to shed some light on this issue in a presentation entitled "The Bretton Woods System, the IMF, and Some Devaluation Controversies in the Developing Countries."

Edwards and Santaella analyzed the conditions surrounding 37 major devaluation episodes that took place between 1954 and 1971. To assess the role of the IMF, they distinguished between devaluations undertaken within the context of an IMF program and unilateral devaluations, emphasizing four aspects in particular:

- whether there are differences between countries that devalued within the framework of IMF programs and those nations that undertook unilateral devaluations;
- whether, in general, devaluations were an effective policy tool that facilitated adjustment in these countries;
- the economic determinants of successful devaluations; and
- the role of political developments—in particular, political instability—in determining the degree of success of stabilization programs.

Those countries that approached the IMF for assistance were initially facing a deeper economic crisis than those countries that decided to grapple with

Robert Triffin: disintegration of the Soviet military threat may change Western policies.

the imbalances on their own, Edwards and Santaella found. The former had suffered greater losses in competitiveness, deeper worsening in their current accounts, and more serious declines in their net foreign asset positions. In addition, the authors found, countries with a more unstable political history were more likely to approach the IMF. These observations suggest that countries with a record of political instability have greater difficulty in designing credible adjustment programs; as a result, they have a greater incentive to obtain a "seal of approval" as a substitute for reputation.

Countries that had IMF programs also undertook larger devaluations, on average, than non-IMF countries, said Edwards and Santaella. Their results showed that "in general these devaluations were quite 'successful,' with the majority of countries showing improved current account balances and stronger net foreign asset positions.

The analysis showed that "a key element in determining the degree of a devaluation program is the package of policies implemented alongside it," Edwards and Santaella further pointed out. IMF devaluers were more conservative, implementing, in general, tighter policies.

Although the evidence suggested that the devaluations studied were generally successful, it also revealed a large number of fundamental failures during the period. "Invariably these failures were related to the inability (or unwillingness) to implement consistent fiscal and macro policies," Edwards and Santaella pointed out. They also found that, in general, countries that experienced a greater degree of political instability in the period following the crisis tended to have an unsuccessful experience.

Although their study did not bear directly on the debate on the merits of a return to greater exchange rate fixity in developing countries, Edwards and Santaella proposed that their analysis did give them a persuasive explanation for the causes of "fundamental disequilibria," in addition to information about the relationship of developing countries with the IMF and the politics and economics of devaluations. "At least with respect to these areas, Bretton Woods was not as bad as it sometimes seemed," they concluded.

Pamela J. Bradley,
Senior Editor, *IMF Survey*

Currency Convertibility Is Crucial To Transformation of Eastern Europe

Eastern Europe's unprecedented effort to manage the transition from state- to market-directed activity will depend on the ability of its leaders to establish currency convertibility. This is the main conclusion of *Currency Convertibility in Eastern Europe*, which was published by the Institute for International Economics (IIE)—a Washington-based public policy think tank.

The volume, which was edited by John Williamson, a senior fellow at the IIE, derives from a series of papers on the modalities of establishing convertibility that were delivered at a conference in Vienna, Austria earlier this year.

The diversity of participants did not prevent agreement on a number of underlying fundamentals. Convertibility clearly matters. "Moreover, its establishment is rightly seen as deserving a higher priority than was accorded to it in Western Europe during the period of postwar reconstruction," Williamson observes.

Contributors to the book also seem to agree on the conditions necessary to permit convertibility. They contend that, at the microeconomic level, currency convertibility makes sense when the essential features of a market economy are already in place—that is, autonomous enterprises, hard budget constraints, and price decontrol. Similarly, at the macroeconomic level, they conclude that currency convertibility requires fiscal discipline, firm monetary policies, elimination of a monetary overhang, a strong balance of payments position, and an adequate level of reserves.

On the timing and sequencing of convertibility, however, the authors' views diverge. Czechoslovak Minister of Finance Vaclav Klaus insists that such transformations should be carried out as rapidly as possible. Addressing the closely aligned issues of price liberalization and currency convertibility, Klaus concludes that "after a year in which the Czechoslovak economy has been largely reformed—indeed transformed—I no longer mention the sequencing issue at all. I am deeply convinced that the idea of sequencing is just a technocratic or rationalistic notion based on unrealistic beliefs in social engineering, in scientific control of the reform process, and in the fine-tuning of reforms."

Currency convertibility makes sense when the essential features of a market economy are already in place.

The counterargument is put forward by Ferdinand Lacina, Minister of Finance of the Republic of Austria. He maintains that the establishment of currency convertibility is but "one element of the restructuring process in the countries of Eastern Europe, and one that must be carefully planned so as to fit coherently within a well-defined program of economic transformation."

The book also provides valuable insights into the experiences of Eastern European countries that have embraced ambitious currency convertibility regimes—with mixed results. With respect to Yugoslavia, for example, Ljubisa S. Adamovich of Belgrade University explains that the central Government's decision to make the dinar convertible for current account transactions in December 1989 was based on one overriding goal: to arrest the inflationary tide. Initial results were encouraging, but as Adamovich points out, "there have been a number of barriers to the program's success, including that of the introduction of external convertibility, most of which are outside the Government's control."

Flemming Larsen of the European Commission concludes that conditions are ripe in Eastern Europe for a rapid and successful adoption of full-fledged convertible currency regimes. He notes that "the economic arguments for the early introduction of convertibility in Eastern Europe are well known and accepted by most: the need to 'import' a realistic, relative price structure; the urgency of exposing industry to foreign competition to promote a restructuring of trade toward new markets in the West; and the need to gain credibility for the comprehensiveness of the reform programs."

The authors of *Currency Convertibility in Eastern Europe* recognize that the ultimate success of this undertaking depends upon the readiness of the international community to support these changes. Observes Mario Nuti, Adviser to the Commission of the European Communities, "convertibility, like most reforms, should be thought of as an investment—a good one but, like all investments, in need of finance."

John M. Starrels,
IMF, External Relations

G-7 Ministers Finalize Debt Agreement With Soviet Union and Republics

Following is a communiqué issued by the Group of 7 on November 21, 1991 in Moscow:

1. The following Sovereign States: Republic of Armenia, Republic of Belorussia, Kazakh Soviet Socialist Republic, Republic of Kirghizia, Republic of Moldavia, Russian Soviet Federal Socialist Republic, Republic of Tadzhikistan, State of Turkmenistan, and the Union (the "Parties"), which have signed the Memorandum of Understanding on external debt (MOU) of October 28, 1991, and the G-7 conducted negotiations in Moscow on November 18–21 on monetary and financial issues of mutual interest.

2. The Parties confirm that

(a) The Memorandum of Understanding on external debt of October 28 has now been signed without any reservation and has unconditionally entered into force with respect to the Parties which have signed the said Memorandum. Without prejudice to the immediate entry into force of the MOU, the Parties have undertaken to conclude, before the end of November [of] this year, a special agreement on the allocation of the responsibility for the repayment and servicing of the external debt of the U.S.S.R. as well as all its assets. The Parties will adopt the necessary measures aimed at mobilizing additional foreign exchange, as well as to conserve foreign exchange, for the U.S.S.R. Vneshekonombank (VEB), which has been authorized to service the debt in accordance with the Memorandum. The U.S.S.R. Vneshekonombank (VEB) subsidiaries and affiliates, and their branches, will seek clarification of their sit-

Currency Units per SDR

Currency	NOVEMBER 5	6	7	8	11	12	13	14	15	18
Deutsche mark	2.26583	2.26065	2.25972	2.27037	2.26779	2.25842	2.26082	2.25744	2.25533	2.23643
French franc	7.74863	7.7228	7.72863	7.7433	...	7.72062	7.72239	7.71504	7.70914	7.63131
Japanese yen	178.475	179.817	179.275	179.189	179.38	179.508	179.43	179.092	179.205	179.421
Pound sterling	0.779325	0.777994	0.777549	0.781221	0.780646	0.77853	0.779351	0.778524	0.779735	0.774505
U.S. dollar	1.37925	1.38055	1.38116	1.37573	1.37667	1.38189	1.38023	1.38188	1.38169	1.39194
Argentine austral	3661.5	...	3680.4	3626.6	3642.8	3687.6	3671.2	3694.4	3685.6	...
Australian dollar	1.75678	1.75956	1.76281	1.75409	1.75216	1.75701	1.75714	1.75745	1.75765	1.77024
Austrian schilling	15.94	15.9136	15.893	15.953	15.9625	15.8959	15.9168	15.8889	15.8798	15.7498
Bahrain dinar	0.518598	0.519087	0.519316	0.517274	0.517628	0.519591	0.518966	0.519587	0.519515	0.523369
Bangladesh taka	51.9839	52.0329	52.0559	51.8513	52.4374	52.6382	52.573	52.6358	52.6286	53.019
Belgian franc	46.6428	46.5452	46.5485	46.6441	...	46.4907	46.6	46.5003	46.4697	46.115
Brazilian cruzeiro	908.388	920.026	932.918	941.261	953.798	968.622	983.98	996.239	...	1014.45
Canadian dollar	1.54559	1.55146	1.54828	1.54976	...	1.56361	1.56242	1.56401	1.562	1.56997
Colombian peso	939.228	941.245	942.987	940.311	...	945.848	945.803	948.011	948.917	957.335
Danish krone	8.77824	8.76649	8.76553	8.77853	8.80105	8.7598	8.78516	8.77217	8.76406	8.70728
Ecuadoran sucre	...	...	...	...	...	...	...	...	...	...
Finnish markka	5.51562	5.50425	5.51221	5.5208	5.54936	5.5165	5.53748	5.52752	6.2936	6.03406
Guatemalan quetzal	...	...	...	...	...	...	...	...	...	...
Indian rupee	...	35.6399	35.7595	35.733	35.6365	35.7423	35.7332	35.8199	35.86	36.0532
Indonesian rupiah	2726.78	2730.73	2731.93	2722.57	2725.81	2736.14	2732.80	2736.12	2737.13	2757.43
Iranian rial	92.3	92.3	92.3	92.3	92.3	92.3	92.3	92.3	92.3	92.3
Iraqi dinar	0.42875	0.429154	0.429344	0.427866	0.427948	0.429571	0.429055	0.429568	0.429508	0.432695
Irish pound	0.848978	0.845873	0.845574	0.849373	0.848905	0.844934	0.845056	0.844773	0.844141	0.834947
Italian lira	1699.3	1693.94	1696.76	1703.98	1704.94	1700.65	1701.13	1699.95	1701.83	1689.65
Kuwaiti dinar	0.394038	...	...	...	0.394196	0.394834	0.394359	0.394444	...	0.396188
Libyan dinar	0.383929	0.383929	0.383929	0.383929	0.383929	0.383929	0.383929	0.383929	0.383929	0.383929
Malaysian ringgit	...	3.78754	3.78645	3.77569	3.77896	3.79052	3.78597	3.78566	3.78652	3.80696
Maltese lira	...	...	...	...	0.444761	...	...	...	0.443204	0.442251
Mexican peso	...	...	...	...	...	...	...	...	...	...
Nepalese rupee	58.894	58.9495	58.9755	58.7437	58.7838	59.0067	58.9358	59.0063	58.9982	59.4358
Netherlands guilder	2.55672	2.54781	2.54844	2.55845	2.55634	...	2.54473	2.54376	2.54065	2.51259
Norwegian krone	8.87327	8.86037	8.86263	8.8769	8.89811	8.85101	8.87143	8.85578	8.85732	8.79469
Omani rial	0.530322	0.530821	0.531056	0.528968	0.52933	0.531337	0.530698	0.531333	0.53126	0.535201
Pakistan rupee	34.125	34.1572	34.1722	34.0379	34.0612	34.1903	34.2046	34.2455	34.2408	34.4948
Portuguese escudo	194.775	194.431	194.405	195.272	195.21	194.694	195.206	195.032	197.455	196.051
Qatar riyal	5.02047	5.0252	5.02742	5.00766	5.01108	5.03008	5.02404	5.03004	5.02935	5.06866
Saudi Arabian riyal	5.16529	5.17016	5.17244	5.15211	5.15563	5.17518	5.16896	5.17514	5.17443	5.21282
Singapore dollar	...	2.31905	2.31855	2.31095	2.31694	2.31854	2.31658	2.31368	2.31516	2.31925
South African rand	3.87223	3.8711	3.88834	3.86029	3.86499	3.86856	3.86879	3.86237	3.86325	3.8856
Spanish peseta	142.732	142.231	142.229	142.854	142.737	142.176	142.009	141.963	142.101	140.771
Sri Lanka rupee	...	58.3282	58.4231	58.2622	58.302	58.5092	58.4527	58.5364	58.5422	58.9626
Swedish krona	8.26447	...	8.24829	8.26745	8.28893	8.25127	8.26206	...	8.25629	8.18809
Swiss franc	1.99577	1.99697	1.99578	2.00196	2.00512	1.9989	2.00409	2.00234	2.00138	1.98351
Trinidad and Tobago dollar	5.87647	5.88201	5.8846	5.86147	5.86547	5.88772	5.88064	5.88767	5.88686	5.93053
U.A.E. dirham	5.06323	5.068	5.07024	5.0503	5.05376	5.07292	5.06682	5.07288	5.07218	5.10981
Venezuelan bolivar	82.9619	...	83.0768	82.7846	...	...	83.1244	83.0855	83.0741	83.76

Note: The value of the SDR in terms of the U.S. dollar is determined as the sum of the dollar values, based on market exchange rates, of specified quantities of the first five currencies shown above. The value of the SDR in terms of any currency other than the U.S. dollar is derived from that currency's exchange rate against the U.S. dollar and the U.S. dollar value of the SDR. Exceptions are the Iranian rial and the Libyan dinar, the values of which are officially expressed directly in terms of currency units per SDR.

Data: IMF Treasurer's Department

uation from the competent authorities of the countries in which they are located. The Parties will keep the G-7 and other creditor countries informed about progress in implementing these commitments, including provision of full statistical information on debt service.

(b) They will put in place, working with the IMF as a matter of the highest priority, appropriate macroeconomic policies, which will address in particular the following issues: reducing fiscal deficits, public expenditure, and monetary growth, and liberalizing prices and the exchange rate. Accordingly, they intend, in full consultation with the IMF, to adopt and implement, during the first quarter of 1992, comprehensive and ambitious macroeconomic and structural adjustment programs, taking into account the recommendations of the IMF. Aware of the high degree of their economic interdependence, the Parties will seek to maintain free inter-Republican trade. The Parties also accept the need for full disclosure of existing economic and financial data in accordance with international standards and are prepared to improve their data collection systems.

(c) They will seek quick mobilization and disbursement of untied credits already committed by other countries.

(d) The Memorandum is open for signature by other successors to the U.S.S.R.

3. The Parties are at present facing a critical situation in the economic and financial field. Therefore, they have asked for additional emergency external assistance, going beyond the food aid and other programs under consideration or already in place. In response to all of the above, the G-7 countries stand ready to support the measures listed below:

(a) a deferral of payments, on principal only, on medium- and long-term official external debts contracted before January 1, 1991. The Parties will seek comparable treatment from all other creditors, including commercial banks, other creditor countries, and suppliers. The deferral will cover the principal payments on medium- and long-term credits falling due in the period to the end of 1992; it may continue beyond March 31, 1992, provided satisfactory progress is made concerning the measures set forth in paragraph 1 above, in particular the adoption of programs prepared in full consultation with the IMF and taking into account the recommendations of the IMF and the mobilization of foreign exchange. For the deferral to remain valid, payments on nondeferred amounts—including interest—will have to be made on due dates. The implementation of this measure will require negotiations between the Debt Manager and all creditors.

(b) the maintenance of short-term credits by their export credit agencies, which will be asked to continue extending short-term lines and guarantees to banks and suppliers. The Parties and their relevant financial institutions will seek the renewal of short-term credit lines from banks and from suppliers.

(c) a possible emergency financing in the form of a gold swap facility which will be implemented in tranches, depending on the progress in mobilizing foreign currency for the service of the external debt in accordance with paragraph 1(a) above. In this case, the gold will have to be deposited in locations acceptable to the G-7.

4. All these measures represent an integral whole and are not to be considered separately. G-7 support of this package of measures is based upon the continuing fulfillment by the Parties of the commitments above.

5. The G-7 countries are ready to assist in obtaining treatment from countries indebted to the U.S.S.R. which is comparable to that given to other creditor countries, according to standard cooperative international practices. The G-7 countries will also provide advice aimed at mobilizing foreign exchange through direct investment and financing from other sources secured by natural resources and the forward sale of certain commodities and goods.

From the Executive Board . . .

India: Stand-By Credit. The IMF has approved a stand-by credit for the Government of India authorizing drawings up to the equivalent of SDR 1,656 million (about $2,262 million) over the next 20 months in support of the Government's economic and financial program. Earlier in 1991, the IMF approved a first-tranche stand-by credit for India for the equivalent of SDR 551.93 million (about $754 million) and drawings under the compensatory and contingency financing facility totaling the equivalent of SDR 1,352 million (about $1,847 million). (See Press Releases Nos. 91/5, 91/33, and 91/47.)

India started the 1990s with large internal and external financial imbalances and was, consequently, vulnerable to adverse external shocks. The problems stemmed primarily from fiscal deficits that had grown substantially during the 1980s. Moreover, the country's pattern of financing its external deficits had changed: before the 1980s, it relied almost exclusively on aid on concessional terms and then, subsequently, it resorted increasingly to financing on commercial terms so that, by the end of the decade, its debt-service burden was relatively high. This was accompanied by a drawdown of international reserves to low levels by the end of 1989/90. India's increased vulnerability became evident with the onset of the Middle East crisis in August 1990, as its external current account position was weakened by higher oil prices and the loss of workers' remittances. Expansionary financial policies, which continued to put pressure on domestic prices and contributed to a widening of the external current account deficit in 1990/91, worsened the situation. The external payments situation remained extremely tight during the first half of 1991/92 as exports stagnated, largely owing to slack demand in key markets in industrial countries and the Middle East and to disruptions to trade with the U.S.S.R. In addition, there was an outflow of short-term capital and nonresident deposits. These developments led to a fur-

ther weakening of India's international reserve position.

The new Government that took office in late June acted quickly to address the deteriorating economic situation by adopting a set of stabilization measures designed to restore confidence and reverse the capital outflow. It also implemented a comprehensive program of fiscal consolidation and a radical structural reform to shift away from the policies of the past, which had relied on extensive government regulation.

The Government's economic program for 1991/92–1992/93, which the stand-by credit supports, seeks an easing of the external payments situation and a rebuilding of international reserves, economic growth of 3–3½ percent in 1991/92 followed by gradual recovery in 1992/93, and a reduction in inflation to no more than 6 percent by the end of 1992/93. A large, sustained reduction in the overall public sector deficit is central to the authorities' strategy, both to reduce pressure on the external accounts and to release resources for the private sector. The 1991/92 budget includes, on the revenue side, a number of tax measures, a first step toward selling shares in public sector enterprises, an increase in petroleum product prices, and measures to improve tax compliance. On the expenditure side, the budget relies on sharp cuts in export subsidies, higher fertilizer prices, and the elimination of the sugar subsidy, a tight constraint on defense and other outlays, and lower transfers to public enterprises. The fiscal program for 1992/93 will continue to reduce the deficit while initiating a major tax reform. In the monetary field, the program provides for a continuation of the monetary tightness adopted in the course of 1991/92 in response to the external liquidity crisis and the buildup in inflationary pressures. External sector policies under the program are designed to promote exchange rate stability, a continuation of reforms to integrate India more closely into the world economy, and the temporary maintenance of measures to hold down imports. In addition to the IMF financing, substantial exceptional financing for India's adjustment efforts has been mobilized from multilateral institutions (the World Bank and the Asian Development Bank) as well as from bilateral donors.

India's economic program includes structural reforms aimed at reducing government intervention, enhancing domestic competition, and accelerating the country's integration into the world economy. The authorities have already taken significant action in many key areas and are preparing further measures for implementation in the near future. They announced three major initiatives in July 1991, namely, the virtual abolition of the complex system of industrial licensing, which governs the entry, expansion, and diversification of firms for all but 18 industries; measures to strengthen competition between private sector and public enterprises; and a significant liberalization of foreign investment. The authorities also intend, to a large extent, to dismantle India's restrictive trade system over the next three to five years, and to move toward a transparent price-based system with moderate protection for domestic industry. In the financial sector, the three priority areas for action under the program are to achieve a more market-oriented allocation of credit, strengthen the capital base of a number of banks and improve supervision procedures, and build up capital markets, including the term-lending institutions.

The authorities have long regarded the alleviation of poverty as the overarching objective of Indian economic policy. Structural reform plans, resurgence of economic growth, and reduced inflation are expected to improve India's poverty profile substantially. Nevertheless, to protect the poor from the short-term costs of economic transformation, the authorities intend to insulate key expenditures, such as primary education, health, and social welfare programs, from fiscal consolidation, and they have taken account of the distributional consequences in deciding on increases in administered prices. India's environmental concerns center on land degradation, deforestation, and water pollution. The authorities are preparing a National Conservation Strategy, which is to be completed in the coming months.

India is an original member of the IMF, and its quota is SDR 2,207.7 million (about $3,016 million). India's outstanding financial obligations to the IMF resulting from past operations and transactions currently total the equivalent of SDR 2,379 million (about $3,250 million).

Press Release No. 91/64, October 31

Guyana: Enhanced Structural Adjustment Facility. The IMF has approved a loan equivalent to SDR 17.71 million (about $23.95 million) for Guyana in support of its second annual arrangement in the framework of its three-year arrangement under the enhanced structural adjustment facility (ESAF). The loan is available in two semiannual installments, with the first disbursement, equivalent to SDR 8.86 million (about $11.98 million), available immediately. The IMF also approved the immediate utilization by Guyana of a further SDR 3.28 million (about $4.44 million) under its existing stand-by arrangement, which is due to expire at the end of 1991.

The recent performance of the economy has been broadly in line with the objectives of the program, which are to lay the basis for sustained growth and lower inflation, and to make progress toward a viable external payments position. After substantial adjustments in early 1991, the exchange rate has stabilized, and the rate of price increases has slowed sharply. Economic activity has entered a recovery phase, with real GDP projected to increase in 1991 for the first time since 1987. The recovery has been strongest in the export sector, where rice, bauxite, gold, and sugar production have increased mainly in response to an improved incentive structure associated with the unification of the exchange rate and the liberalization of prices, greater competition in the rice-milling sector, and the increased availability of imported inputs. While inflation was somewhat higher than had been projected during the first half of 1991, owing in part to corrective price increases and the elimination of most subsidies, the monthly rate slowed to about 2 percent a month in June–July. There has also been a substantial strengthening in the country's international reserves.

Building upon the progress made to

date, the Guyanese authorities have developed a program for 1991–93 that maintains the objectives of the original program and seeks to continue to correct the economic and structural problems still facing Guyana. These problems include infrastructural bottlenecks, critical shortages of skilled labor and management, a large parallel economy, and a very large external debt.

The 1991–93 medium-term economic program envisages real GDP growth of 4–4½ percent a year, a reduction of the annual rate of inflation to about 8 percent a year by 1993, and a further strengthening of Guyana's international reserves. Fiscal policy aims at a reduction of the overall public sector deficit through increased tax revenues and expenditure controls, further improvement in the efficiency of the central Government, and a continuation of the Government's divestiture program. The credit program contemplates expanding bank credit to the private sector while fostering positive interest rates in real terms. The program will continue to rely on market determination of the exchange rate, interest rates, and prices as the main guides to resource allocation.

The deterioration of Guyana's economy over the past decade has resulted in a substantial decline in the standard of living and in the provision of social services. The improved macroeconomic policy framework is expected to reverse this decline over time through a restoration of economic growth. In order to alleviate the burden on the most vulnerable groups of the population in the transition period, the Government in 1989 launched an emergency poverty alleviation program financed out of its own resources, and this was followed by a social impact amelioration program, which became operational in March 1991.

Guyana joined the IMF in September 1966, and its quota in the IMF is SDR 49.20 million (about $66.52 million). Guyana's outstanding financial obligations to the IMF's General Resources Account, ESAF Trust Fund, and Trust Fund currently total SDR 89.06 million (about $120.42 million).

Press Release No. 91/65, November 1

Guinea: Enhanced Structural Adjustment Facility. The IMF has approved a credit equivalent to SDR 57.9 million (about $79.9 million) for Guinea under the IMF's enhanced structural adjustment facility (ESAF) in support of the country's three-year economic and financial reform program. SDR 17.37 million (about $23.9 million) will be available to support the first annual economic program, to be disbursed in two equal semiannual installments.

In 1985, the Government of Guinea began to shift toward a market-oriented system by initiating wide-ranging financial and structural reforms. These reforms were supported by financial and technical assistance from the IMF and other multilateral and bilateral institutions. The macroeconomic situation improved significantly through 1987, but the momentum of the adjustment effort and the reform process weakened considerably thereafter. Consequently, external imbalances widened considerably, while fiscal imbalances remained large. Sizable domestic and external payments arrears were accumulated.

The medium-term program for 1991–94 is designed to diversify economic activity and reduce the excessive dependence of government revenue and export earnings on bauxite mining by encouraging the development of the nascent private sector. The main macroeconomic objectives are to achieve an average annual growth in real GDP of at least 5 percent, progressively reduce the rate of inflation to 8 percent in 1994, and narrow the external current account deficit to 4.2 percent of GDP by 1994. To attain these objectives, the program entails the implementation of tight fiscal policies, including a reinforcement of tax collection and control over expenditure, as well as a careful assessment of the investment priorities for the rehabilitation and expansion of basic economic and social infrastructure. Monetary policies will also remain tight, and key interest rates will be kept above the rate of inflation. Incentives to production will be strengthened by maintaining external cost competitiveness and appropriate domestic pricing policies.

The program places major emphasis on structural reforms, with a view to improving the financial position of the public sector and enhancing economic efficiency. Key areas of policy action include administrative reform, the restructuring of public enterprises, the strengthening of the financial sector, and continuation of the privatization process.

The first annual program, covering the period July 1991–June 1992, aims at containing the external current account deficit and reducing the rate of inflation while maintaining the growth of real GDP at 4–5 percent. The authorities intend to normalize relations with their external creditors through the elimination of payments arrears and the restoration of orderly debt servicing. The program objectives will be supported by tight fiscal and monetary policies. These measures will be accompanied by wide-ranging structural reform measures, such as an overhaul of the civil service roster and payroll management system; completion of the privatization of the distribution network for petroleum products; the restructuring of several key public enterprises; and the reorganization of the post and telecommunications sectors.

The authorities attach considerable importance to protecting budgetary expenditure for the social sector, especially health and education. During 1991–92, outlays on health and education will increase markedly. Policies will be geared toward primary education and the provision of basic health care, as well as the development of preventive medicine. Short-term adverse consequences of the economic reform program for selected segments of the population will be addressed through the strengthening of the Government's social policies and the provision of temporary benefits to redundant workers in the public sector. Over the medium to long term, the promotion of private sector activities and better incentives for agricultural production will help to generate higher incomes and reduce poverty.

Guinea joined the IMF on September 28, 1963, and its quota is SDR 57.9 million (about $79.9 million). Guinea's outstanding financial obligations resulting

from past operations and transactions currently total SDR 30.5 million (about $42.1 million).

Press Release No. 91/66, November 7

Uganda: Enhanced Structural Adjustment Facility. The IMF has approved a credit equivalent to SDR 39.84 million (about $55.0 million) for Uganda in support of the third annual economic program under the enhanced structural adjustment facility (ESAF). The credit is available in two equal semiannual installments, with the first disbursement, amounting to SDR 19.92 million (about $27.5 million), available immediately. A three-year ESAF credit of SDR 179.28 million (about $247.6 million) for Uganda was approved by the IMF in April 1989 (see Press Release No. 89/9), and SDR 139.4 million (about $192.5 million) has already been disbursed under this facility.

During the first two full years of the program supported by the ESAF credit (1989/90 and 1990/91), Uganda made considerable progress in reducing financial imbalances and in addressing structural impediments to improved economic performance. As a result, real GDP increased at an annual average rate of 4.5 percent, the inflation rate declined, and the external current account deficit continued to shrink, in spite of adverse external developments. Nevertheless, Uganda's external position continues to be weak and unduly dependent on the coffee sector, its debt-service burden remains high, and its international reserves are low.

The program for 1991/92 aims at a growth rate of real GDP of at least 5.0 percent, a significant reduction in the rate of inflation, and a further narrowing of the external current account deficit. To attain these objectives, the authorities place high priority on tackling the remaining structural impediments to improved economic performance and on carrying out disciplined macroeconomic policies. The program will rely on a strong fiscal policy aimed at bolstering Uganda's revenues, complementing the reforms in the civil service and parastatal sectors, and rehabilitating essential infrastructure. Monetary policy will aim at reducing inflation and strengthening the balance of payments, and interest rate policy will be geared toward boosting the domestic savings effort. External sector policies will continue to promote export diversification and efficient import-competing industries, as well as the normalization of Uganda's relations with its external creditors.

The Ugandan Government is concerned about the needs of the most disadvantaged groups and, starting this year, will increase budgetary allocations for primary health care, education, and water supply. In addition, it is implementing a program for the alleviation of poverty and the social costs of adjustment (PAPSCA), which addresses the needs of those who are in precarious economic and social conditions. PAPSCA consists of 19 initiatives, including small-scale rural infrastructure rehabilitation, water supply and sanitation, primary education, health services for widows and orphans, and other social services, which are being funded by a number of donors. For the medium term, PAPSCA provides for the strengthening of social policy planning in order to incorporate concerns for the poor and the most vulnerable in the design of the Government's economic policy initiatives.

Uganda joined the IMF on September 27, 1963, and its quota is SDR 99.6 million (about $137.6 million). Uganda's outstanding financial obligations to the IMF resulting from past operations and transactions currently total SDR 217.22 million (about $300.0 million).

Press Release No. 91/67, November 11

Burundi: Enhanced Structural Adjustment Facility. The IMF has approved a credit equivalent to SDR 42.7 million (about $58.9 million) for the Government of Burundi under the enhanced structural adjustment facility (ESAF) in support of the country's economic and financial reform program for the period July 1, 1991 through June 30, 1994. The credit will be disbursed over a three-year period. During the first year, Burundi may draw a total of SDR 12.81 million (about $17.7 million), in two semiannual installments. The first disbursement, equivalent to SDR 4.27 million (about $5.9 million), is available immediately.

The performance of the Burundi economy in recent years has been mixed, and not all targets of the 1986–89 program supported by the IMF under a structural adjustment facility were met. The country's economic performance has been adversely affected by external factors, including a fall in the terms of trade and unfavorable weather conditions, as well as by the outbreak of civil disturbances. Another important factor influencing economic performance was the inadequate implementation of key measures, including those aimed at reducing the dominant role of the state in many productive activities. Although per capita income has increased and inflation has been kept at 5–6 percent a year, the economy remains dependent on coffee and vulnerable to external developments. Recently, internal and external imbalances have widened. Also, Burundi has increased its dependence on foreign grants and loans, and its debt-service ratio has risen.

Burundi's economic program for 1991–94, which the ESAF credit supports, aims at achieving an average rate of economic growth of 4 percent a year, lowering the annual rate of inflation to about 4 percent beginning in 1993, and reducing the external current account deficit, excluding grants, from 19 percent of GDP in 1990 to less than 14 percent of GDP in 1994. To attain these goals, the Government will follow consistent macroeconomic policies and accelerate the restructuring of the economy to enhance the supply-side response. It also plans to reduce the fiscal deficit from about 12 percent of GDP in 1990 to less than 5 percent in 1994. The reduction in the overall fiscal deficit, combined with the projected inflow of foreign financial assistance, will permit the Government to eliminate its net indebtedness to the domestic banking system in 1991, thereby freeing financial resources for productive sectors. In the monetary field, the money supply is to grow at a slower pace than the increase in nominal GDP. The exchange rate will be maintained at levels that balance the supply and demand for foreign exchange.

Structural measures aim at increasing the economy's resilience in the face of adverse external developments and enhancing the role of the private sector. The Government will reduce its involvement in the production process and will simplify regulatory, legal, and administrative procedures to encourage private sector investment so that it becomes the driving force for future economic growth. Agricultural policies will aim at diversifying export production, increasing crop yields, and allowing markets to function freely through decontrol of producer prices for export crops and a restructuring and privatization of the state-owned agro-industries. In the coffee sector, a reform of the processing and marketing system is also under way.

The medium-term program stresses investment in the social and environmental sectors as a way to address population growth and reduce severe pressure on available land. The authorities intend to take measures to ensure that the entire population has access to basic health services and medicines and to improve the quality of primary and secondary education. Since 90 percent of the population is rural, the Government's reorientation of capital outlays toward the rural sector will benefit the majority of the people. An environmental action program includes legislation and regulations on pollution control, waste disposal, water quality, land use, soil erosion, and fishing management.

The first-year economic program under the ESAF aims at achieving a rate of economic growth of at least 3.3 percent in 1991 and 3.6 percent in 1992; containing inflation to an average of 9 percent in 1991 and 8 percent in 1992; and reducing the external current account deficit to 17 percent and 16 percent of GDP, respectively, in 1991 and 1992.

Agricultural policies in Burundi will aim at diversifying export production, increasing crop yields, and allowing markets to function freely.

Tighter macroeconomic policies are a key feature of the policies to be adopted during the first year. On the fiscal side, they will emphasize controlling the growth in expenditure and shifting the composition of expenditure in favor of the social sectors and maintaining existing infrastructure. Direct subsidies to public enterprises that are to be liquidated or privatized in 1991 will be eliminated. These enterprises, except for monopolies, will be allowed to adjust their prices without government interference, while prices will be continuously monitored and adjusted for monopolies. Monetary expansion will be kept below the rate of increase in nominal GDP, and the Central Bank will encourage greater market determination of interest rates, thus improving credit allocation. The main objectives of external policies in the first-year program are to reform the exchange system, liberalize imports completely, reduce restrictions on other current international transactions, promote exports other than coffee, and eliminate the losses of coffee exporting operations.

Burundi has been a member of the IMF since September 28, 1963, and its quota in the Fund is SDR 42.7 million (about $58.9 million). Burundi's outstanding financial obligations to the IMF currently total SDR 29.9 million (about $41.3 million).

Press Release No. 91/68, November 14

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